The French referendum

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Section III

NEWSPAPER of THE YEAR

FINANCIAL TIMES

Monday September 14 1992 EUROPE'S BUSINESS NEWSPAPER D8523A

Refugee crisis 'threatening German stability'

An urgent plea for help in dealing with the refugee crisis and a warning that Germany's political stability was at risk because of the flood of asylum-seekers from Yugoslavia and eastern Europe came from Klaus Kinkel, the German foreign minister. Germany was shouldering a disproportionate burden, having taken in more than 220,000 asylum seekers from Bosnia – more than any other country apart from neighbouring Croatia. However, EC foreign ministers avoided a commitment to spread the load by relaxing their own immigration controls but agreed to speed up efforts to reach a common approach required because of the difference in laws. **Page 18; EC and UN agree strategy, Page 2**

Industrialists wavering: Support for the UK government's hard line on sterling appears to be wavering among the heads of Britain's biggest companies, with Sir Owen Green, chairman of the industrial conglomerate BTR, arguing for the free flotation of sterling. Other company heads argue for sterling to be devalued within the European exchange rate mechanism. **Top bosses want pound in ERM, Page 7**

Israeli right angered: The Israeli government faced a chorus of protest over its willingness to exchange occupied territory on the Golan Heights for peace with Syria as its team of negotiators flew to Washington for the resumption today of Middle East peace talks. **Page 4; Euphoria fades, Page 18**

Camdessus says Yes: Michel Camdessus, managing director of the International Monetary Fund and a former governor of the Bank of France, has thrown his weight behind the campaign for a Yes vote in the French referendum on the Maastricht treaty. **Interview, Back Page, Section II; Smith challenged on Maastricht strategy, Page 7**

Thai election: Parties opposed to military interference in Thai politics appeared to have won a slim parliamentary majority in Thailand's general election, four months after troops killed at least 50 pro-democracy demonstrators in Bangkok. **Page 18**

Canary Wharf: Banks meeting in Toronto may decide the fate of the Jubilee Line tube extension to London's docklands and whether a move to acquire Canary Wharf organised by Mr Paul Reichmann, founder of the financially troubled property development, will succeed. **Page 19**

Actor Anthony Perkins dies

Actor Anthony Perkins, 60, best known for playing a murderous motel keeper in Alfred Hitchcock's *Psycho*, died in his Hollywood Hills home of complications related to AIDS, a spokeswoman said.

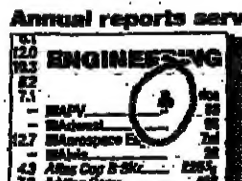
Benetton family buy: Italy's Benetton family has bought a 50 per cent stake in the TWR Group, the UK motor racing, research and consulting company **Page 21**

Sansui: The latest results from Sansui Electric, the Japanese consumer electronics company and former Polly Peck subsidiary, were hit by what is expected to be the final big write-off in the company's corporate restructuring. **Page 21**

Swedish banks: With two banks already rescued and a third in serious difficulties, the Swedish government is working to avoid the entire banking sector falling under its control. **A legacy from the 1980s, Page 19**

Gas interest: British Gas is preparing to launch a move – thought to be worth £50m ($100m) – for stakes in Argentina's gas transmission and distribution companies when Gas del Estado, the state gas company, is privatised later this year. **Page 19**

Annual reports service



Readers can now call a single telephone number to obtain free copies of annual reports for companies listed in the London Share Service pages of the Financial Times.
Details, Page 19. Telephone number, Page 31

Swindlers' warning: British police say they have uncovered fresh attempts by Nigerian conmen to draw UK banks and businesses into fraudulent transactions involving forged letters of credit and bank drafts and potentially worth millions of pounds. **Page 4**

Somalian aid increased: European Community foreign ministers agreed to send some 185,000 tonnes of additional food as well as some Ecu50m ($72m) of non-food aid to Somalia in the face of what was called 'a unique tragedy'. The EC is to send observers to improve aid co-ordination and talks are to be held with UN secretary-general, Boutros Boutros Ghali, over plans for a political solution. **Relief efforts, Page 4**

Conference opens: The UK Liberal Democratic Party opened its annual conference amid calls for the rejection of any pacts with the Labour Party following the Conservatives fourth general election victory in April.

Mansell to retire: Motor racing world champion Nigel Mansell is to end his 12-year career in Formula One at the end of the season, he announced in Italy after weeks of on-off talks with Williams-Renault team manager Frank Williams.

Germany to cut rates today after lira devalues in ERM

By our Foreign and Economics Staff

ITALY and Germany last night moved to end the crisis in the European Monetary System by agreeing a 7 per cent devaluation of the lira to be followed by cuts in the Bundesbank's leading interest rates today.

Monetary officials said the surprise move could be followed by interest rate cuts in other countries such as France and the Netherlands. Analysts in London suggested it also could ease speculative pressure against sterling.

Mr Giuliano Amato, the Italian prime minister, last night put a brave face on the devaluation of the lira within the European exchange rate mechanism, saying he believed yesterday's decision would not be inflationary. He welcomed the co-operation of the Germans and the agreement worked out in consultation with other European Community members. "If we had devalued earlier, it would have been merely an own goal", he said.

The Bundesbank's decision to call a special meeting of its council today is unprecedented. European monetary officials said last night that they expected cuts in Germany's discount and Lombard rates, currently 8.75 and 9.75 per cent respectively.

By including a change in its interest rates in a realignment package, the Bundesbank is admitting the important role that the high rates have played in the recent turmoil in the European currency markets.

Until now, the Bundesbank has been adamant that its high interest policy was essential to curb monetary expansion and hold down inflation within Germany. Senior officials, including Mr Helmut Schlesinger, the president of the bank, have insisted in recent weeks that the monetary and economic indicators in Germany gave no grounds for either an increase or decrease in key rates.

Only last week Mr Otmar Issing, a leading Bundesbank board member, insisted that the bank's policy would not be swayed by broader economic considerations, but only by its paramount task to curb inflation and maintain the stability of the D-Mark.

Nonetheless, pressure on the Bundesbank has been growing rapidly, both from within and without Germany, to recognise the international reality causing the stresses in the currency markets. The high rates have been causing great pressure on the D-Mark for a revaluation against other EC currencies, at a time when such a move would hit already ailing German exports.

The lira devaluation was decided by officials of the EC monetary committee over the telephone and did not require a meeting of economics and finance ministers.

Officials said the Bundesbank appeared to have agreed to cut its interest rates in expectation that the Bonn government and both sides of industry will take more effective measures to curb inflationary pressures in Germany.

Mr Norman Lamont, Britain's chancellor of the exchequer, last night welcomed the realignment and in particular the Bundesbank's intention of cutting its interest rates.

In a statement, he made clear that the UK government would not alter the parity of sterling against the D-Mark and that it would take "whatever action was necessary" to maintain the central rate at DM2.95.

The moves for a unilateral 7 per cent devaluation of the Italian currency were initiated after massive intervention on Friday had failed to lift the currency off its floor in the ERM.

Last night's moves were warmly welcomed by the French government. Mr Michel Sapin, finance minister, said he welcomed this "double decision in which France took full part".

In London, several economists said that the Bundesbank's pledge to cut official rates could lead to a rise of sterling and other European currencies today, and that, in the short term, the pressure had been taken off the UK to raise interest rates.

Mr Gerard Lyons, chief economist at DKB International, said: "Today's action shows that European governments are determined to keep the ERM in spite of the referendum. That is the most important point. We could get a German cut of 50 basis points or even 100 basis points. The size of the reduction is less important than the move itself".

"It will inevitably help sterling in the short term. But hurdles remain for sterling. These include the referendum, the weakness of the UK economy and the implications of the lira devaluation which reveals the weakness of sterling."

However, Mr Jim O'Neill, head of research at Citibank in London, said the move would be unlikely to stabilise currency markets if the French vote No in their referendum on the Maastricht treaty next Sunday. "If the French vote No, it will not help the situation."

He added: "It doesn't surprise me that the Italians have had to devalue because there's been so much pressure on the lira over the last week. However a 7 per cent devaluation is not much, since the lira is overvalued by around 15 per cent against the D-Mark."

Mr John Shepperd, senior economist at Warburg Securities in London, said that the chief part of the equation was missing, the size of today's cut in rates.

But he added: "The most important thing is that the Bundesbank has cracked. It has bowed to international pressure, abandoning domestic issues. Its approach to policy has changed. In the future it is likely to have a much more accommodating stance. There will be much more confidence that the current parities will be much more durable and sustainable. What was going to blow the ERM apart was the Bundesbank's intransigence".

Economics notebook, Page 19
European bonds, Page 22

Italian premier Giuliano Amato: putting on a brave face

EC ministers warn of crisis if Maastricht rejected

By Lionel Barber in Hatfield and William Dawkins in Paris

- **Referendum to be a cliff-hanger** Page 2
- **Labour in open warfare over Europe** Page 7
- **British fund managers expect a Yes** Page 7
- **The Brussels balloon flies into danger** Page 16
- **Capital markets** Pages 22,23
- **Builder of a social pillar** Back Page, Section II

EUROPEAN Community foreign ministers yesterday stepped up warnings about a financial and political crisis if the Maastricht treaty on European union is rejected in next Sunday's referendum.

The warning came at the end of two days of informal talks in Hatfield, near London, between the ministers but before the announcement of a realignment in the European exchange rate mechanism late yesterday.

In France politicians embarked on a frenzy of campaigning to try to swing a finely divided electorate in the run-up to the referendum.

The slim majority for Maastricht yesterday appeared fragile, according to the last of the public opinion surveys before pre-election polling closed at midnight on Saturday. The final five surveys before the deadline showed an average 52.4 per cent majority for the pro-Maastricht camp, of which one poll, by BVA for Libération, showed an even split.

EC officials cautioned, however, that the predications of a potential political crisis in western Europe could be aimed at galvanising undecided voters in France. They also pointed out that French approval for the treaty would not remove the problem raised by the Danish vote against Maastricht last June.

At the foreign ministers' meetings Mr Roland Dumas of France said failure to approve the treaty would deal a grave blow to the Community's ambitions for greater economic and monetary integration, with inevitable international repercussions.

Mr Dumas stressed that he remained confident that the French would approve Maastricht. He raised the possibility of an "earthquake" in the event of a No vote. "You can't tell where the buildings will fall down", he said.

Britain, which holds the EC presidency, is prepared to call an emergency session of EC foreign ministers in New York next Monday – whatever the outcome of the referendum. Mr Douglas Hurd, British foreign secretary, said: "There will have to very close co-ordination if there is a French Yes or No."

Mr Hurd left open the possibility of EC foreign ministers – who are due to be in New York for the opening of the United Nations General Assembly – holding talks with EC finance ministers gathered in Washington under the auspices of the Group of Seven industrialised countries.

In France, anti-treaty supporters have gained ground in recent days and up to 29 per cent of the electorate is still undecided according to a poll by Ifop for Journal du Dimanche.

National politicians of all parties have planned 75 public meetings, debates, and radio and television appearances in an attempt to seduce the waverers.

In a gesture likely to be welcomed by France's mainly anti-Maastricht farmers, the government announced that it would negotiate to soften the impact of European Community agriculture policy reforms at an EC ministerial meeting on September 21 and 22.

Hardline guerrilla leader captured by Peruvian police

By Sally Bowen in Lima

MR Abimael Guzman Reynoso, founder and leader of Peru's hardline guerrilla group Sendero Luminoso (Shining Path) has been captured in Lima.

Police raids on two houses in prosperous suburbs netted 57-year-old Mr Guzman, one of the world's most famous fugitives, and half a dozen members of Sendero's powerful central committee.

Sendero has waged 12 years of political warfare, which has claimed more than 25,000 Peruvian lives and cost the impoverished nation some $20bn, roughly equal to its total foreign debt.

Analysts estimate Sendero's fighting strength to be about 5,000, but militants and committed supporters may total another 100,000. It is too early to predict if Mr Guzman's capture will prove a crushing blow to Sendero.

The life of Mr Guzman – "Presidente Gonzalo" or "the fourth sword of the revolution" to his followers – had assumed almost mythical qualities.

A philosophy professor in the impoverished central Andean town of Ayacucho in the 1960s, he built up Sendero initially among university students and peasants. Its blend of Marxism, Leninism and Maoism overlaid with traditional Andean culture and beliefs captured support among the marginalised.

Since Sendero emerged into the national arena in 1980, burning ballot boxes in the village of Chuschi in Ayacucho province, it has aimed at overthrowing what it perceives as a corrupt and inept state.

In the past two years the violence which had previously been concentrated in the more remote areas of Peru has come to the capital. Sendero infiltrated many popular organisations in Lima, assassinating any local leader who resisted. In July a wave of car bombs rocked its commercial and residential areas.

Until now there had been only scant glimpses of Mr Guzman. He was detained in 1979, accused of helping to organise a general strike, but was released. In 1988 he gave a 40,000-word interview to Sendero's newspaper which is the most coherent available exposition of "Gonzalo thought".

Less than two years ago a videotape captured in a police raid gave Peruvians a rare treat – Mr Guzman was filmed drinking and dancing to the music of Zorba the Greek with close collaborators, all dressed in Chinese-style uniform tunics.

His capture late on Saturday night was attributed to five months of patient observation by Dincote, Peru's counter-terrorist police.

His arrest, along with high-level members of his organisation, will boost the morale of the security forces who have been targeted with a vehemence unusual even for Sendero.

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3600	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 18,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

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French referendum to be a cliffhanger

By William Dawkins in Paris

FRANCE'S referendum on European monetary and political union will be a cliffhanger right to the last minute, when the first results of the vote start to emerge from the interior ministry's computers next Sunday evening.

Public opinion polls closed last Saturday at midnight, as they must do seven days before an election under French law, showing that the Yes camp has a slim majority, but that it has lost ground over the past week.

The average of the five last polls before Saturday midnight gave a narrow 52.4 per cent in favour of the treaty – of those who have made up their minds – down from 54.2 per cent shown by a similar average the previous week, according to Mr Jean-Francois Mercier, economist at Salomon Brothers in London.

Among the final batch, an extremely detailed BVA poll for the Libération newspaper, gave a 50-50 split between those who have made up their minds. Paradoxically it indicated at the same time that 60 per cent of the electorate supported monetary union and 62 per cent supported external *security co-operation*, the main points in the treaty. Some 42 per cent said they saw the referendum as a chance to vote against the government. All this confirms the impression that French voting intentions are still clouded by domestic politics.

"The Yes campaigners are failing to give people strong personal reasons for voting for the treaty and have instead warned them of catastrophe if they vote against. The electorate could be getting tired of this message. The No campaign, by contrast, has focused on the specific personal worries inciting people to vote against," said Mr Mercier.

Better news for the Yes campaign came from a Sofres poll for TF1 on Saturday, which gave 52 per cent in favour of Maastricht and said that 73 per cent of those interviewed thought that the pro-treaty camp would win. According to Ifop, for Journal du Dimanche, the Yes camp had 53 per cent, two-and-a-half points up on an Ifop poll five days previously.

Even the polling organisations agree that their results cannot be taken at face value. President François Mitterrand is more familiar to the vagaries of polls than most, since the polling organisations did not foresee his 1981 presidential election victory until the last minute.

The small size of pollsters' samples, usually around 1,000 people, means that there is a margin of error of several percentage points when extrapolating the result to a national referendum.

To complicate the outlook further, up to 29 per cent of the electorate does not know how it will vote, according to the most recent surveys. They could go either way or abstain on Sunday.

For another thing, French opinion polls are notoriously volatile. The French are so intensively quizzed on political matters – the Journal de Dimanche has a political poll nearly every week, even in quiet times – that there is a temptation for people being polled to use the occasion to toy with opinions rather than express real views.

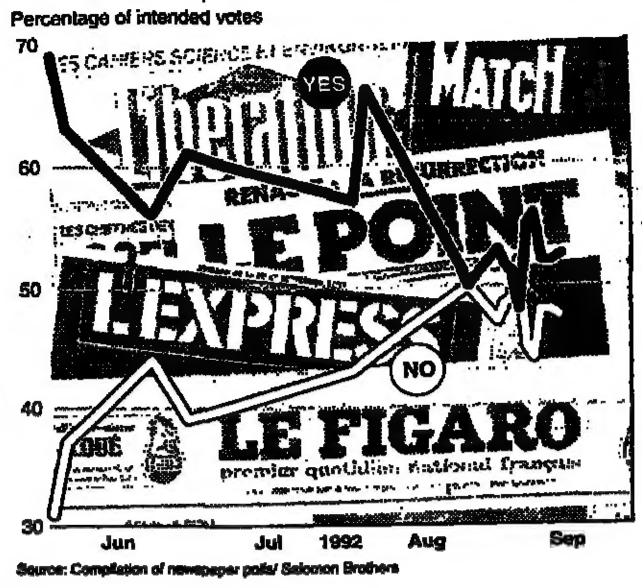
But the polls are doubly volatile this time. When President Mitterrand called a referendum on 3 June, the day after the Danish No vote, opinion surveys indicated that nearly 70 per cent of the French electorate would give the treaty its blessing.

But that majority steadily ebbed away through July and August as the anti-Maastricht lobby took the campaign initiative, pushing hard on the theme of sovereignty. The government's image at the same time received a battering from the truckers' strike, a scandal over Aids-contaminated blood and the latest twists in a long running controversy over allegedly illicit party funding.

The sudden emergence of a small majority against the treaty by the end of August shocked a previously sluggish pro-Maastricht campaign into action. Since then, a flurry of meetings and interviews, culminating in Mr Mitterrand's marathon television debate on September 3 have given the pro-treaty vote a much-needed lift.

Poll of Maastricht polls

Percentage of intended votes



Source: Compilation of newspaper polls/ Salomon Brothers

Martial music sets scene for No vote rally

Nationalist sentiment and Gaullist values are swelling the anti-Maastricht camp, writes Robert Mauthner

IN A futuristic structure on the edge of a Paris science theme park, resembling a huge indoor tennis court, giant TV screens carrying anti-Maastricht slogans, a 6,000-strong rattle-waving audience and stereophonic martial music set the scene for a three-hour demagogic spectacular in France's European union referendum battle.

It was the first time since the beginning of the campaign that the three musketeers of the rejectionist camp – Philippe Seguin, the neo-Gaullist intellectual, Charles Pasqua the Gaullist traditionalist and former interior minister and Philippe de Villiers, a dynamic young centrist member of parliament – had shared a platform together. A roar welcomed them as the search-lights picked them up.

To dispel the impression that all the support was coming from the regimented faithful, bussed-in from around Paris and the provinces, if not the French overseas territories, a cohort of ageing former political dignitaries were massed in serried ranks behind the speaker's pulpit.

'Choose Maastricht or choose France'

That some were still alive would have been sufficient reason for the acclaim they received. They included Mr Maurice Couve de Murville, General de Gaulle's veteran foreign minister and short-lived prime minister, Mr Michel Poniatowski, former President Giscard d'Estaing's unpopular interior minister and, of course, Admiral Philippe de Gaulle, the incarnation of his father's combat for French national independence and sovereignty.

It came as no surprise that all the speakers should extol these typically Gaullist values as being radically opposed to centralised government from Brussels by faceless international technocrats, who could only see their powers enhanced by the Maastricht treaty. "What stopped Hitler?" Mr de Villiers asked. "The British nation and the French nation embodied in the Resistance. Every time an attempt is made to suppress the nation, it provokes a popular revolution."

In spite of the vociferous xenophobic reactions of the militants in the hall, the speakers did their best to distinguish opposition to the Maastricht treaty from opposition to the European Community. "We love France and we want to construct Europe," Mr Pasqua said. "But we feel strongly that, *with the Maastricht* treaty, we have to choose one or the other. It is no longer a question of pooling or associating our efforts. What we are being asked to do is to merge and to integrate, that is to water down and divide our national contributions."

In spite of some sarcastic references to Mr John Major, the British prime minister, for allegedly urging the French people to vote "yes" to Maastricht while himself refusing to commit Britain to economic and monetary union, the British government's attitude to European co-operation was held up as an example to be followed. Mr Major, Mr Pasqua maintained confidently, would be ready to sign a new treaty. "We have to admit that a treaty of Oxford or Cambridge, without any technocratic elements but with a greater democratic content and providing for an opening to eastern Europe, would be a different matter altogether and might be something in which we could believe."

Mr Seguin, for his part, extolled the virtues of a common, as distinct from a single currency, co-existing with national currencies, on the lines proposed by Mr Major and Mr Edouard Balladur, the former French finance minister.

'Treaty victory a victory for Mitterrand'

However, the organisers of the meeting could not hide the fact that their objective was by no means confined to sinking the Maastricht treaty – "this indigestible pudding", in the words of Mr Pasqua. Constant chants by the militants of "Mitterrand, fous le camp!" ("Mitterrand, get out") were a clear indication of the difficulty that voters have in separating European and domestic political issues in this referendum.

"Our opposition to the treaty and our opposition to the socialist government springs from the same principles," Mr Seguin said with frankness. "Moreover, we are not naive. We know only too well how much a victory of the Yes vote would profit Mr Mitterrand. The ratification of the Maastricht treaty would be above all *his* victory. In the eyes of history, it would erase all the errors of the past. That is for us another major reason to vote No."

For many French people, it has become increasingly clear, that will be the principal reason for their negative vote.

Neo-Nazis gaining ground, say voters

MOST French voters believe neo-Nazis are gaining ground in Germany but only a minority fear their newly-unified neighbour, according to an opinion poll published yesterday, Reuter reports from Bonn.

German ZDF television said it ordered the poll from the French opinion institute, BVA, to find out how far fear of Germany might influence next Sunday's French referendum on the Maastricht treaty on European union.

ZDF said that when asked if they believed neo-Nazis were on the rise in Germany in view of rightist attacks on foreign asylum-seekers, 59 per cent of respondents said Yes and 35.5 per cent said No.

But nearly 60 per cent said they had little or no fear of Germany and 51 per cent saw Germans as partners. Only 2.2 per cent saw Germans as enemies.

The 1,500 French voters were polled last Thursday and Friday, a week after Chancellor Helmut Kohl appeared on a French television show to reassure France of Germany's good intentions in the run-up to the referendum.

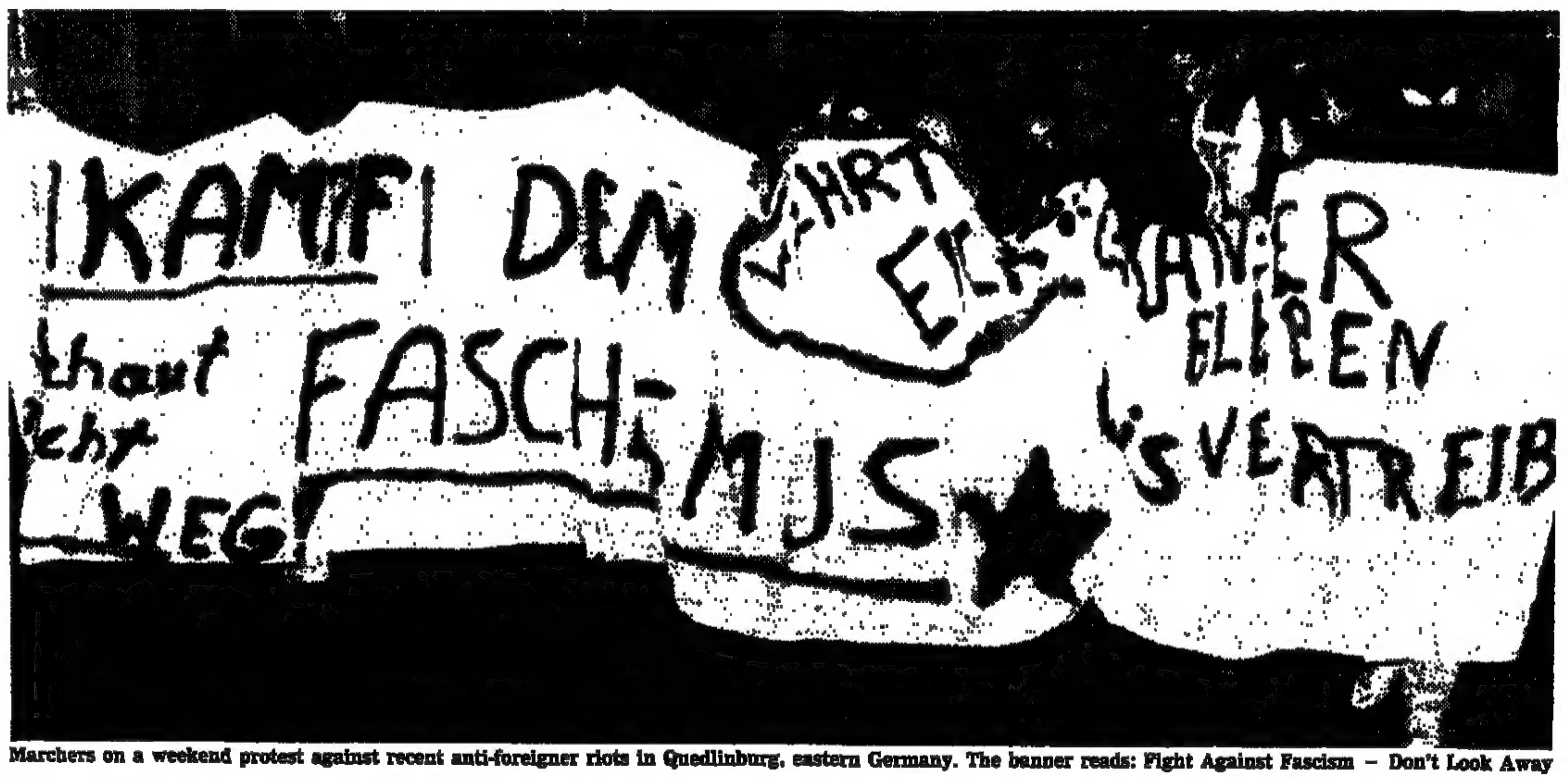
Meanwhile in Lyons, unidentified attackers knocked over a dozen tombstones and wrote pro-Nazi graffiti at a Jewish cemetery in the city yesterday, eyewitnesses said.

The desecration at the cemetery followed an attack two weeks ago on a Jewish cemetery at Herrlisheim in Alsace, where about 200 tombstones were broken.

Incidents of vandalism against Jewish and Christian cemeteries, usually by gangs of youths, take place every year in France.

Lyon dissident Gaullist mayor Michel Noir and about 2,000 people later gathered at the cemetery with leaders of the city's Jewish community for a protest meeting.

Mr Noir, an outspoken opponent of extreme right-wing leader Mr Jean-Marie Le Pen, is the son of a non-Jewish resistance fighter who was sent to a concentration camp.



Marchers on a weekend protest against recent anti-foreigner riots in Quedlinburg, eastern Germany. The banner reads: Fight Against Fascism – Don't Look Away

EC and UN agree strategy for Yugoslavia

By Judy Dempsey in Belgrade and Lionel Barber in Hatfield

UNITED Nations and European Community officials will this week start implementing a three-pronged strategy aimed at ending the war in Bosnia-Hercegovina, officials in Belgrade said at the weekend.

But they warned that the process would be slow. "This is a step-by-step process. This is about establishing confidence-building measures among all sides in Bosnia," a senior UN official said yesterday.

The strategy involves linking political negotiations at the Geneva conference on the former Yugoslavia with a massive humanitarian aid operation in Bosnia, and an extended monitoring mission on the ground designed to stem the fighting in the former Yugoslav republic.

It follows lengthy discussions over the past few days between Mr Cyrus Vance and Lord Owen, joint chairmen of the Geneva conference, and Croatian, Bosnian and Serbian leaders.

The European Community yesterday expressed guarded optimism about the peace efforts and agreed to refrain from introducing tougher diplomatic and economic sanctions to halt the fighting.

Mr Douglas Hurd, British foreign secretary, said at a meeting of Community foreign ministers in Hatfield in the UK that the EC and United Nations would continue to press the warring parties to place their heavy weapons under international control and close down detention camps in Bosnia in compliance with the London peace conference accords.

Accordingly, Mr John Major, British prime minister, is to write to the presidents of Serbia, Bosnia and Croatia reminding them of their obligations. "There has been some progress, but not enough. Sanctions remain crucial," Mr Hurd said.

Ministers agreed to support an American proposal to impose a "no fly" zone over Bosnia-Hercegovina and said Serbia should be denied the former Yugoslavia's seat at the United Nations. It was also agreed to examine how to set up a court to try suspected war criminals for atrocities committed during the fighting.

But the proposed ban on military flights would not be imposed in the air, as in Iraq. The best way would be to station observers at airports to prevent a recurrence of the recent shooting down of an Italian plane bring relief supplies to refugees in Bosnia.

Mr Radovan Karadzic, leader of the Bosnian Serbs, last night threatened to withdraw from the London peace conference on Yugoslavia if a total air exclusion zone was imposed. His forces are trying to consolidate their positions across eastern and northern Bosnia.

The decision to withhold further sanctions against Serbia reflects an effort to strengthen the hand of Mr Milan Panic, prime minister, in his struggle against the Serbian President Slobodan Milosevic.

Mr Panic's influence may be increasing, according to Lord Owen, who briefed the ministers on his visit.

Lord Owen cited as evidence the agreement which he and Mr Cyrus Vance, the UN's special envoy, reached with Mr Panic and military leaders of the rump federal government to start placing heavy weapons in Bosnia-Hercegovina under international supervision. This process is under way, though haltingly.

As part of the political strategy, Bosnia's Serb, Croat and Moslem leaders have been invited to Geneva this week for the first round of talks on the future constitutional status of Bosnia.

To give the Bosnians a stake in the negotiations, UN officials told Bosnian President Alija Izetbegovic that the EC's cantonisation plan, which would have divided Bosnia into ethnic provinces dominated by Serbia and Croatia, was off the agenda.

They added however that military intervention was out of the question.

But UN and EC officials told Mr Panic and Croatian President Franjo Tudjman that territory seized by Croatia and Serbia in Bosnia would never be recognised.

Croatia has already set its own proxy nationalist state in western Hercegovina under the leadership of Mr Mate Boban. There, the local Moslem and Serb communities have been forced out of the region.

The humanitarian relief operation forms the second prong of the strategy. This involves closing the camps, allowing those who want to return to do so, and rebuilding the refugees' homes. "This will require a huge financial commitment. We are very disappointed with the international response so far," a senior UN official said.

UN officials concede that many refugees will not want to return because of the fear of reprisals and hatred. This is where the third strategy, known as confidence building measures, comes to the fore.

"We want to place monitors on the borders with Bosnia, deploy UN troops in other cities as well, and have an air cap over Bosnia," a UN official said. "This strategy will back up the humanitarian aid effort, as well as eventually cut down the fighting," he added.

GUNS FIRE ON AFTER WEAPONS DEADLINE

UNITED Nations monitoring of heavy weapons in and around Sarajevo yesterday gave the Bosnian capital a relatively quiet day, Reuter reports.

But the UN commander in the city, General Hussein Ali Abdul Razek, called it "only one step on a long road to peace". Elsewhere in the republic the guns fired on.

Serb forces yesterday fired heavy artillery and mortar shells at Bihac for the fourth consecutive day in spite of the deadline for the monitoring of heavy weapons, the town's Moslem defenders said.

UN sources confirmed that Howitzers and tank cannon pounded the outskirts of the north-west Bosnian town and shells landed in the deserted centre after sirens sent frightened civilians scurrying for cover. Eyewitnesses heard no artillery being fired from Moslem positions in Bihac.

Four hours before Saturday's noon deadline, Serb infantry were also said to have mounted a three-pronged attack on the village of Golubic, just 5km to the south-east.

"It was a long-planned attack with the aim of taking Bihac," said Mr Ramiz Drekovic, commander of the Bosnian Defence Force in one of the last pockets of territory in western Bosnia still controlled by Moslem forces. "The Serbs are given one deadline, then a second and no action is ever taken," Mr Drekovic said.

Bosnian Serb leader Radovan Karadzic said at the weekend that all his heavy artillery was now being watched and monitors would be able to confirm that Serb forces never started firing first. Military sources said UN observers had visited some weapons sites in the Bihac area but co-operation in some places depended on the character of the Serbs in charge. Building up trust was essential, they said.

Vienna closes its hostels to Bosnians

By Ian Rodger in Vienna

THE city of Vienna, fearing civil unrest similar to that in Germany and facing a shortage of accommodation suitable for the winter, has closed the doors of its refugee hostels to new Bosnian refugees.

Other Austrian länder are expected to follow the city's lead.

Mr Helmut Zilk, Vienna's democratic socialist mayor, said that the city's "emotional capacity" to absorb refugees had been exhausted. The estimated 15,000 Bosnian refugees in the city have added to a pool of roughly 300,000 first generation immigrants among a total population of 1.5m. Bosnian refugees have been arriving at the rate of 100 to 150 a day in recent weeks.

The ban applies only to publicly supported hostels. Buses arriving from Bosnia will still be allowed into Austria. Provided they can find shelter through private friends or the charitable agencies, refugees can still enter Vienna.

Mr Zilk said the ban was only temporary and there was speculation at the weekend that it could be lifted within a few weeks, especially if the Croatian government took up Vienna's offer to underwrite the costs of housing up to 1,000 Bosnian refugees in empty hotels on the Istrian peninsula. Mr Franz Löschnak, the Austrian interior minister, said it was scandalous that the Croatian government had not yet replied to Vienna's offer.

Mr Zilk said Austrian authorities had been shaken by the anti-immigrant riots in Germany, and wanted to prevent similar outbreaks of xenophobia or disturbances in the hostels. Last week, two Bosnians were arrested for trying to recruit men in Vienna refugee camps to go back home to fight. This infringed Austria's neutrality.

The authorities are also acutely aware of the risk of instability in other eastern European countries, and the consequent potential for more large flows of refugees into Vienna in coming years.

The Green party, one of the main opposition forces in the Vienna assembly, was sharply critical. "This is the peak of inhumanity," a spokesman said. He claimed there were plenty of buildings suitable for winter habitation in the city, including military barracks. He feared that other western European cities and countries would follow Vienna's lead.

Turkish coalition challenged from left

By John Murray Brown in Istanbul

THE Turkish government's decision to lift the ban on political parties outlawed after the 1980 military coup has thrown up the first serious challenge to Mr Suleyman Demirel's parliamentary majority, with the revival of the centre-left Republican People's party (CHP).

Turkey's conservative-led coalition had long hoped the CHP would be quietly absorbed by the former CHP prime minister Bulent Ecevit and his Democratic Left, arguably the real inheritor of what is the country's oldest political party. But the election last Wednesday of the maverick social democrat Mr Deniz Baykal as CHP leader raises the prospect that up to 20 Social Democratic Populist (SHP) deputies, now members of the coalition, may leave to form a new party as a first step to joining the CHP.

Such a move would reduce the coalition's majority to just two seats, a fact Mr Baykal, a skilful politician, will exploit. Mr Baykal says he will not seek to bring down the coalition. However, his group could wield considerable influence over a conservative-led government, which hitherto has shared few of the CHP's old-fashioned leftist ideals.

Mr Baykal, a 54-year-old lawyer, has three times unsuccessfully challenged the deputy prime minister, Mr Erdal Inonu, for leadership of the SHP. His parliamentary group is known to be critical of government policy on a number of issues, including the Kurds, where Mr Baykal favours lifting the emergency rule in Turkey's south-east. He is also opposed on nationalist grounds to extension of the allied air operation over north Iraq to protect the Kurds.

Over the weekend, party officials said Mr Baykal already had support from four deputies who represented the CHP before the coup. Mr Baykal can also expect backing from 16 of the SHP's 70 parliamentary deputies, reducing the coalition to 228 seats in the 450-seat parliament.

Greece will not waver on austerity

MR Constantine Mitsotakis, the Greek prime minister, has said the government's commitment to its new economic adjustment programme will not be weakened, however fierce the opposition from the trade unions, writes Kerin Hope from Athens.

Mr Mitsotakis told businessmen attending a conference in Salonica at the weekend: "We're not going to abandon the battle for a healthy, modern economy. There can be no going back."

Earlier, electricity, bank and transport workers announced they would continue a strike protesting against reform of the state pension system, now in its third week.

Mr Mitsotakis said that efforts to trim the public sector deficit would start yielding results this year, with government borrowing reduced to 10 per cent of gross domestic product, and a budget surplus of Dr200bn (£573m).

He predicted that inflation, currently 15.1 per cent, would drop below 10 per cent next year, enabling the drachma to join the exchange rate mechanism of the EMS within 1993. Greece is the only EC member still outside the ERM.

Growth this year would be around 1.5 per cent, he said.

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Estonia and Latvia close to IMF deals

By George Graham in Washington

THE International Monetary Fund is expected to approve standby agreements this week for Latvia and Estonia, enabling the two Baltic republics to borrow up to $120m (£60.9m) between them from the Fund.

Estonia and Latvia will be the first republics of the former Soviet Union to conclude fully fledged IMF standby agreements – which provide money to help a country meet its balance of payments shortfalls in return for agreement on an economic recovery programme. Russia has negotiated a preliminary agreement allowing it to draw on a first credit tranche of $1bn.

Senior IMF officials said the fund was in the process of finalising a similar standby agreement with Lithuania. Kazakhstan and Kyrgyzstan are expected to complete arrangements soon.

Belarus is also making progress in negotiations with the IMF and officials said they were holding discussions with Ukraine.

The Baltic states' standby agreements are expected to allow them to draw up to 90 per cent of their IMF quotas. This would give Latvia access to around $81m, Estonia to about $41m and Lithuania to around $91m.

IMF funding will form part of a broader package of external financial assistance involving substantial aid from the Nordic countries and the European Community.

In its annual report, published last week, the IMF commended Estonia for its progress towards a market economy, but expressed some concern about the slowing of economic reform in Latvia.

IMF officials said they particularly appreciated the "civilised fashion" in which the two countries had left the rouble zone, setting up their own currencies – the kroon in Estonia and the lat in Latvia.

Brussels talks on aid for N-safety

By Clive Cookson, Science Editor

OFFICIALS from 24 western industrialised nations are meeting in Brussels today and tomorrow to work out a co-ordinated system of nuclear safety assistance to the former Soviet Union and eastern Europe.

Senior officials and nuclear experts from OECD countries aim to co-ordinate their bilateral aid programmes, following the failure of the G7 summit in Munich last July to agree a $800m (£406m) multilateral programme to pay for short-term safety work on the region's 25 most dangerous reactors. These are in Russia, Lithuania, Ukraine, Bulgaria and Czechoslovakia.

The bilateral assistance announced so far amounts to about $300m – with about 90 per cent of that coming from the EC. Most of the EC aid so far has been paid for work in Bulgaria.

The meeting is not expected to provide much more money but is intended to ensure that existing funds are spent more effectively.

Big investors in Hungary think again

Changes in the economic climate have upset company plans, writes Nicholas Denton

THE EUROPEAN MARKET

THE trail-blazing western companies which started to invest in Hungary at the end of the 1980s are beginning to ponder what they should have done differently.

Should they have committed less money? Less precipitately? In a different location? Or maybe not made the investment at all?

Investment decisions made two, three or even four years ago, when Hungary became the first east European country to open up to western companies, are now coming to fruition. But the economic climate has changed dramatically.

Multinationals led by such US companies as General Electric, General Motors, Guardian Glass and Ford are finding that many earlier assumptions no longer hold good.

No one anticipated the sharpness and duration of the fall in Hungarian domestic demand, or realised the protected domestic market would be so quickly liberalised.

Nor did anyone predict that east European trading links would disintegrate so rapidly, and that exports to the west would come under pressure from rising local costs and the relative strength of the forint, the Hungarian currency.

Take the car manufacturers. GM, Ford and Japan's Suzuki Motor established a presence in Hungary on the understanding that their investments would earn the country hard currency and so win access to the protected local market.

General Motors, for instance, combined production of both cars and components at its green-field DM400m (£143.3m) plant in Szentgotthard which opened this year.

It hoped exports of car engines produced there would meet the foreign exchange costs of imports of kits for local assembly of Astra models for the Hungarian market.

But then the Hungarian government moved unexpectedly quickly to liberalise car imports. GM Hungary has a one-shift capacity to produce a paltry 15,000 cars a year at Szentgotthard. But managers admit it would be much more efficient to make the cars at larger western plants and import them into Hungary.

Moreover, as a result of the Hungarian recession and import competition, only about 7,000 Astras are likely to be sold in Hungary this year. GM is in the awkward position of importing kits and assembling them in Hungary at high cost, only to re-export the completed cars back to western Europe.

Depressed demand – both in Hungary and in the rest of central and eastern Europe – is also posing problems for Guardian Glass, the privately-owned US glass maker.

Guardian, one of the first large investors in eastern Europe, agreed a $120m (£61m) joint venture in Oroshaza in the south-east of Hungary. The

No one predicted how sharply domestic demand would fall

decision was motivated by the promise of a large east European market for float glass, together by the cheapness of energy imports from the Soviet Union. Neither assumption has been borne out.

Guardian is managing to sell only 25 per cent of its output in eastern Europe, half what it planned. Instead it has to export to Italy and other west European countries. Transport from Hungary costs much more than for deliveries from Guardian's Luxembourg plant, outweighing Oroshaza's advantage of lower labour costs.

"If the company knew that all this would happen, Guardian would still invest – I think – in Hungary; but not necessarily in this part of Hungary," says Mr Gabriel Pataky, finance director of Guardian in Hungary. Mindful of the difficulty of transporting bulky glass from the south-east of Hungary to western Europe, he concludes: "It would have been a green-field site somewhere further west."

General Electric, by contrast, always expected most light-bulb production from its GE-Tungsram joint venture to be exported to western Europe.

But GE has seen unpleasant surprises in other areas. Hungary's tight monetary policy and relatively strong currency have unhinged some of GE's assumptions. Although the forint has been devalued, it has been by less than the inflation rate, which peaked at a rate of 38 per cent last year – leading to a revaluation in real terms.

"If I had known that we would have a devaluation-inflation gap of this magnitude, we probably would have invested less," confesses Mr George Varga, chief executive officer of GE-Tungsram.

Another reason for dashed expectations has been the worldwide economic slowdown. Ford's components facility at Szekesfehervar, which exports all its output, has suffered from the decline in the west European car market. With hindsight, the company says it would have curbed its $83m initial investment.

The recession also adds to pressure from another direction. With global earnings faltering, multinationals' shareholders are increasingly impatient for Hungarian operations to make a contribution. "There is a demand for immediate results," says Mr David Fuller, managing partner of Price Waterhouse Budapest, a branch of the international accountants.

For some investors, the problems have been insurmountable. German metal companies Korf and Metallgesellschaft pulled out of a joint venture at Hungary's Ozd steelworks last year after heavy losses.

Most western companies, however, maintain confidence in the future.

The quality of the local workforce has been better than expected, and investors retain what Mr Fuller calls an "inner belief" that Hungary will develop into a valuable new market place. A golden future, however, is further down the trail than they first thought.

Russians urged to study capitalism

By John Lloyd in Moscow

A CALL for the first coherent and co-ordinated system to educate the Russian workforce in the basics of capitalism was made to the government yesterday.

A report by a commission of Russian and western experts urges short courses across a range of disciplines – banking, insurance, commercial law, marketing, office skills, business management and government economic management. It says existing courses and teaching materials are of a low quality, haphazard and have no national standards.

The report warns that "millions of adults will need to change their activity and occupation", that "Russians have no idea of the market economy" and that "virtually the entire Russian legal profession requires retraining".

The authors revealed yesterday the scale of the changes demanded; 800,000 civil servants require instruction in the basics of the market economy and more than 1m accountants need retraining.

Professor Arkady Mamukovsky, of the School of International Business and one of the report's authors, said training in the new economics must be geared to the specific conditions of the Russian economy – including the "illegality or semi-legality of much Russian commercial activity".

Mr Feodor Prokopov, first deputy labour minister, said the report represented "the first step towards professional training in Russia".

Australians win gold mines access

By Leyla Boulton in Moscow

A SMALL Australian company said yesterday it had won the first foreign stake in Russia's closely guarded gold mining industry by paying $200m (£101.5m) for a deal giving it access to the country's largest proven hardrock deposit.

Star Technology Systems said a joint stock company in which it holds 31 per cent would have exclusive rights to develop Sukhoi Log, a prime mine with unexploited reserves estimated at 1bn tonnes of gold ore (with a yield of 2.5 grammes per tonne). Feasibility work on development is expected to start next year.

Lenzoloto, the state-owned enterprise which holds the licence to Sukhoi Log, produced 10 tonnes from its existing alluvial mining operations last year. But it has sought a foreign investor to improve its efficiency and start work on Sukhoi Log, which could yield 20 tonnes a year by 1996.

The registration of the new joint stock company, also called Lenzoloto, ended a battle with and among Russian authorities over whether Sukhoi Log should be offered to other potential bidders.

The deal is an impressive coup as standing behind Star is a tiny listed company called Central Mining Corporation, which made losses in 1989, 1990, and 1991 and was suspended from the Australian stock exchange from November to April this year.

It is also a victory for Lenzoloto, which encountered fierce resistance to bringing in foreigners of its own choice from Russia's collapsing state gold mining monopoly structure, Rossalmazzoloto.

NEWS: INTERNATIONAL

'Iraqi principle' applied to African relief efforts

UN and aid agencies are under pressure to develop a new strategy in the Horn of Africa, writes **Julian Ozanne**

THE United Nations and international aid agencies are under pressure to develop a new long-term relief strategy in the Horn of Africa amid mounting criticism of relief efforts in Somalia, Sudan and Ethiopia.

The highest-level UN team to visit the Horn of Africa, led by Mr Jan Eliasson, under-secretary general for humanitarian affairs, and Mr James Grant, executive director of UNICEF, is touring the region. They have been told the UN must address the crisis in the Horn in a new way.

"Year in, year out we come back to square one – innocent civilians starving and at the mercy of evil governments and ruthless rebel leaders who use food as a political weapon for military ends," said Mr Abdul Mohamed, an expert on humanitarian relief in the Horn. "The whole way the UN does business in the Horn must now be dramatically revised to search for long-term solutions."

The critical issue under review is sovereignty. Relief efforts in Sudan, Somalia and Ethiopia have traditionally been hampered by the international aid community's respect for sovereignty, which has allowed dictatorships to veto and manipulate relief efforts. The Islamic fundamentalist military regime in Sudan, for example, stopped all relief flights to southern Sudan in March to strengthen their most successful military offensive against rebels in the nine-year civil war.

The campaign to review sovereignty mounted by African relief experts has been boosted by the UN-approved intervention in Iraq, Yugoslavia and Somalia.

"If the UN can say that the humanitarian imperative of saving the lives of Kurds and Shias in Iraq overrides the claims to sovereignty of President Saddam Hussein, then why shouldn't that principle be extended to Sudan and other African countries where governments have lost their moral right to sovereignty by failing to feed and protect their people?" asks Mr Kosti Manibe, deputy general secretary of the Sudan Council of Churches.

In Somalia the arrival of the first armed UN troops to protect relief supplies from banditry and looting, expected today, is being heralded by relief experts as the first extension of the "Iraqi principle" to Africa.

But the exercise is still constrained by what many observers term the "old way of doing business". First there is the problem of relations with the warring factions. The UN and non-governmental agencies continue to negotiate with the warlords on deployment of troops and relief operations. The UN and NGOs have also, under the authority of the warlords, employed several thousand gunmen. They say it is necessary for the short-term goal of distributing food.

Mr Murray Watson, a Somalia specialist, says that by dealing with the warlords as if they were governments the agencies are legitimising their position, which will make matters worse in the long term.

"These guys are criminals and butchers and should not be encouraged nor treated as legitimate authorities," he says. "It's a protection racket and this cycle of criminality has to be broken if relief is going to reach those in need and if a climate of peace and order is going to be restored."

The second big problem is the continuing lack of co-ordination among the agencies. UN agencies and NGOs continue to *squabble and fly their own flags*. "If humanitarianism is their objective, rather than grabbing publicity and boosting their donor appeals, the UN and NGOs should urgently form a single, coherent relief administration following a single integrated programme," says Mr Watson.

Experts also say the agencies have yet to produce a comprehensive assessment of needs and establish a monitoring system to ensure that relief is actually getting to those in need and not producing a vicious spiral of food aid dependency.

Furthermore there still appears to be no strategy for the long-term rehabilitation and development of Somalia. The re-establishment of the economy and the institutions of civil society, such as a police force and judiciary, will require the international supervision of a process of political dialogue leading to an interim administration. So far this has not received any serious attention.

"If delivery of emergency aid is not accompanied simultaneously by a political process the entire effort will go to waste," says Mr Mohamed.

Similar issues are being argued in southern Sudan. In a paper presented to the UN team Mr Lam Akol, one of the leading Sudanese rebel officials, presses for a review of relief efforts.

Mr Akol says the situation is southern *Sudan is now worse than it was three* years ago when Mr Grant launched "Operation Lifeline Sudan" – an ambitious relief programme designed to arrange the delivery of food and medicine to the war-ravaged civilian population.

The operation has been consistently undermined by both the government and the rebel faction led by Mr John Garang. In the past eight months the government has banned UN flights to certain towns in an effort to deny food to rebel supporters. Meanwhile, a UN airlift of food to the besieged garrison town of Juba, where up to 300,000 people are in critical need of food, has been halted several times because of rebel threats to shoot down relief aircraft.

The UN estimates that at best it is able to reach 10-20 per cent of the southern population displaced by the war and desperately in need of food and medicine.

In his paper Dr Akol calls the actions of both the government and Mr Garang's rebel faction "criminal". He says observing sovereignty is "unrealistic". "The UN must use to the fullest extent the new strong role it has acquired since the collapse of the east-west polarisation to enforce the respect of human rights," he says.

Among the measures Mr Akol is pressing on the UN is the establishment of an *"exclusion zone"* in southern Sudan, blocking government bombing raids and allowing UN use of force to deliver relief, and involvement in negotiations to end the civil war.

Many of these issues challenge the UN and NGOs to travel down new roads. But Africans on the ground say that without a new initiative the world will be forced to continue feeding the starving next year and the year after.

European Community foreign ministers yesterday agreed to improve the humanitarian aid effort to Somalia, which the UK's Mr Douglas Hurd described as a "unique tragedy" caused by famine and the complete breakdown of law and order. Lional Barber and agencies report.

Some 185,000 tonnes of food are being dispatched, as well as some Ecu50m ($72m) of non-food aid.

The European Commission is to send observers to Somalia to improve aid co-ordination. Mr Hurd is to hold talks with Mr Boutros Boutros Ghali, the UN secretary general, to work out plans for a political solution.

Meanwhile, the first 60 of 500 UN troops being deployed to protect humanitarian workers and shipments in Mogadishu, Somalia's lawless capital, were expected to arrive today, officials said.

International efforts to get food to Somalia's starving continued with the United Nations and the International Committee of the Red Cross announcing plans to increase sharply the amount of food reaching there.

The effort was underscored on Saturday by UN officials who ended a three-day tour of Somalia promising not just increased food aid, but greater efforts to get seed, medicines and vaccines to the nation's vulnerable millions.

Zairean currency falling sharply

By Julian Ozanne in Nairobi

ZAIRE'S currency is in free fall as a result of continuing political instability and economic mismanagement in Africa's second biggest nation.

The nose dive of the zaire reflects the inability of Zaire's feeble central authority to resuscitate the mineral-rich economy and restore political stability after army-led looting wrecked Kinshasa and other towns in September and October last year.

This month the zaire has fallen more than 30 per cent against the US dollar from Z690,000 to Z1m. The increasingly rapid depreciation of the zaire followed a move by the Central Bank to inject Z8bn into the system at the beginning of the month. Exactly 12 months ago the zaire was trading at Z18,000 to the dollar.

At the moment there appears little sign of a recovery and the return of several thousand western businessmen who fled the violence last year until a stable political authority is installed.

A government created in August by a pro-democracy conference and led by Mr Etienne Tshisekedi, a seasoned opponent of President Mobutu Sese Seko, has been paralysed. Leaders of the mineral-rich province of Shaba, which tried to secede from the country during the Katanga crisis of the early 1960s, have said they will not recognise it.

The new government has promised to call early multi-party elections and President Mobutu, widely viewed as personally responsible for the chaos of the country, has said he will stand as a presidential candidate.

Third world crisis goes on – OECD

BANKS and governments may be getting the upper hand over the third world debt crisis but it has not gone away and poor countries will have to fight to *win more funds in coming* years, the OECD said today Reuter reports from Paris.

"The debt problem has certainly not been resolved nor has it at all gone away in any global sense," the Organisation for Economic Co-operation and Development (OECD) said in its annual aid report.

The Paris-based think-tank for the world's richest countries noted that while the crisis had eased in Latin America, where most of the main debtors are, the problems for sub-Saharan Africa had worsened.

Since government lenders were now looking much more closely at issues such as human rights and democracy when deciding which developing countries to help, political reforms must continue.

At the same time, the third world will need to persevere with economic liberalisation to *attract private finance*, since a big increase in official aid is unlikely in the near future.

The OECD praised creditors for reaching landmark deals with some debtors. "There have been clear improvements in a number of countries, which are now implementing better economic and structural adjustment policies, assisted by debt agreements. Nevertheless, the situation remains critical for many others."

The OECD applauded the debt deals reached with commercial banks by several Latin American countries – including Mexico, which set off the debt crisis a decade ago – saying these had played a part in turning round their economies.

Thousands of settlers from the Golan Heights and West Bank demonstrate on Saturday night against suggestions of territorial compromise in this week's peace talks in Washington

Rabin's hint of compromise angers Israeli right

By Hugh Carnegy in Jerusalem

THE Israeli government faced a chorus of protest over the weekend over its willingness to exchange occupied territory on the Golan Heights for peace with Syria as its team of negotiators flew to Washington for the resumption today of Middle East peace talks.

For the first time since the Likud party of former prime minister Yitzhak Shamir lost power to the Labour party and its left-liberal allies in the general election in June, right-wingers, led by the Likud, mounted a high profile demonstration against the new government, massing thousands of protesters at Ben Gurion airport as the negotiating team left the country.

Mr Itamar Rabinovitch, Israel's chief negotiator with Syria, said he hoped progress would be made in Washington over the next 10 days on agreeing a "joint document of principles" with Syria.

Mr Yitzhak Rabin, the prime minister, said he wanted hitherto unscheduled further talks with Syria and the Palestinians, Jordan and Lebanon in October, instead of waiting until after the US elections in November.

However, Mr Rabinovitch said progress in the talks was bound to be slow. "Breakthroughs and also painful concessions are of a sort that they will come, if they will come, later and not at this point."

● Israel yesterday issued a formal public protest against the decision by US President George Bush to sell up to 72 F-15 warplanes to Saudi Arabia, saying it would continue to make its view know "to those in power and the public in the United States".

UK warning of swindlers

By Jimmy Burns and Michael Holman in London

BRITISH police say they have uncovered fresh attempts by Nigerian conmen to draw UK banks and businesses into fraudulent transactions potentially worth millions of pounds.

According to police officials, a "hard core of Nigerian fraudsters" has been trying to engage UK companies in trade involving forged letters of credit and bank drafts.

The Financial Times has been shown copies of counterfeit letters of credit purportedly issued by a branch of Standard Chartered Bank and advised by National Westminster Bank earlier this summer.

The letter covered a planned shipment from Cooper Printing Equipment, a Hertfordshire-based company. The police were contacted about the attempted transaction after NatWest alerted the company that the financial documentation was fraudulent.

Mr Christopher Cooper, the company's technical director, said: "Our policy here is that we release no goods until everything is verified by the banks. Nigeria is a very unreliable market."

Police say the potential for fraud of this kind has increased as recession puts more pressure on companies to secure sales. Methods used by the Nigerian conmen have also become more sophisticated.

Although NatWest has agreed to go public on the issue, other banks are understood to have had their names used in forged documentation emanating from Nigeria.

NatWest says that while careful handling of documentation should stop obvious frauds from getting through the banking system, "during a recession you can understand how the need for business can cloud someone's better judgment".

The latest Nigerian fraud bears similarities to one discovered in January when British exporters in Leeds uncovered transactions involving a fictitious branch of Nigeria's Wema Bank and a bogus finance company in New York.

Separately the FT has been passed a copy of a letter sent from Lagos last month to a leading London-based car dealer offering a substantial commission in return for help in transferring $19m of unaudited funds from Nigeria.

The sending of such letters became widespread last year, leading to a crackdown involving British police, the Foreign Office and the Department of Trade and Industry, with the co-operation of the Nigerian government.

But the letter suggests the problem may be about to re-emerge, along with the more sophisticated fraud identified by police following its interception by NatWest.

Detective Inspector Paul Brown of the Metropolitan and City of London Police's fraud squad says: "We believe that Nigerian fraud is not as extensive as it was. But the practice doesn't seem to be going away. It is an on-going problem."

According to officials of the Confederation of British Industry, suspected fraud reported by its members had in recent months become less widespread than it was towards the end of last year, when the CBI issued the first of several statements alerting businesses to the danger of multi-million-pound swindles involved in fraudulent trade with Nigeria.

But an official warned that the practice was still a potentially destabilising factor in the UK's links with one of its main third world trading partners.

The official said: "Nigeria is our biggest market in sub-Saharan Africa. This sort of thing just knocks it all."

The letter obtained by the FT explains that the funds derive from "a government contract to a foreign firm which is pending payment" and which was arranged by members of the armed forces linked to the previous regime. President Ibrahim Babangida, Nigeria's current military leader, seized power in a coup in 1985.

The implication is that the account has been overlooked in the confusion surrounding the coup that brought the present government to power and that some of the unaudited funds will be spent on cars distributed by the recipient.

The letter asks the car dealer to send the following documents by courier service to an address in Nigeria: blank headed letter paper signed by the dealer, blank *pro forma* invoices, also signed and stamped, and the company's bank account.

The letter says military "friends" of the sender have earmarked how the alleged funds will be shared out: "the owners of the business 60 per cent, the accounts owner 30 per cent, for local and international expenses 10 per cent".

The letter was posted from Nigeria early last month to a leading Mayfair car dealer, at an address no longer occupied by the company. It was opened by accident by the present occupant, who passed it onto the FT.

The letter does not suggest there has been any previous contact with the company. Police have confirmed that the letter bears all the hallmarks of a fraud that has been widespread practice over the past 18 months, with companies receiving unsolicited letters of this nature from Nigeria.

According to diplomatic sources in Lagos, the financial document scam is only one of several with which Nigerian swindlers of "world-class quality" have been raking in millions of dollars from victims in Europe, the US, and elsewhere.

A Nigerian last month received a four-year jail sentence in a London court after being found guilty of obtaining money by deception.

The individual was caught after a sting operation involving British police and a small UK company which had lost more than £100,000 ($200,000) in a preliminary transaction.

In recent months, the Nigerian government has tried to pursue potential fraudsters under a special section of the criminal code which covers obtaining money by deception.

But British investigators say potential fraudsters are still managing to avoid arrest in their own country by using false addresses and taking advantage of the inadequate resources of local police forces.

NEWS: INTERNATIONAL

Newspaper alleges government funds used to win support for president

Minister to quiz Brazilian bankers

By Christina Lamb in Rio de Janeiro

THE Brazilian economy minister is to demand explanations from the heads of the country's two largest state banks over allegations that they are using government funds to persuade congressmen to vote against the impeachment of President Fernando Collor.

The move follows publication in the Folha de São Paulo newspaper of a list of 190 congressmen who were said to have been promised, or already given, funds for projects such as roads, bridges, dams and hospitals in their areas to help elect their candidates in next month's municipal elections. In return they are expected to support Mr Collor.

The money is allegedly being released by Mr Lafaiette Coutinho, president of Banco do Brasil, Mr Alvaro Mendonca, head of the Federal Savings Bank, and Mr Ricardo Fiuza, the social action minister and political co-ordinator. Known as the "shock brigade", these three are now Mr Collor's main political advisers.

Mr Marcílio Marques Moreira, the economy minister, said he did not believe the charges but would today call in the two bank presidents to discuss it. He is anxious to prevent spending which could compromise his austerity policy, particularly as inflation is on the increase, reaching almost 25 per cent a month in August.

There is no doubt, however, that a flurry of projects is suddenly being approved. In Friday's official Daily Gazette alone there were four pages of new projects by the Social Action Ministry totalling Cr10.6bn (£1m).

In an interview in yesterday's O Globo newspaper, Mr Coutinho said: "We are simply responding to some needs of society." But an Economy Ministry official admitted: "For Mr Collor the number one priority now is survival."

In an attempt to prevent vote-buying, Congress will today discuss setting up a commission to inspect all federal spending before the impeachment vote, expected to take place at the end of this month.

Mr Ulysses Guimarães, Brazil's longest-serving congressman, said: "There is no doubt that release of funds is coinciding with changes of voting intention. It's a disgrace that a deputy should be swayed by a bridge or some other public work."

GOVERNOR Bill Clinton (above left) launched at the weekend a national voter registration drive, to be led by the Rev Jesse Jackson (above right), in an attempt to add thousands of black voters to the rolls in the hope they will support the Democratic presidential ticket, AP reports from Washington.

But questions remain as to whether relations between the men have warmed in the wake of Mr Jackson's complaints of a "push-off" strategy by the Clinton campaign.

Mr Jackson sought to add the first unregistered voters to the roll during the seventh annual Black Family Reunion in Washington, saying the vote "has so much power". The event is sponsored by the National Council of Negro Women to draw attention to problems suffered by black families.

Mr Clinton and Mr Jackson spoke briefly backstage after the event, held at an outdoor amphitheatre in the shadow of the Washington Monument. But while they have been polite to each other in recent weeks, Mr Jackson has appeared cool to the Democratic nominee.

Clinton campaign workers said the registration drive would include 300 events in 30 cities. On Saturday they included an appearance by Mrs Hillary Clinton in Arizona and one by Mrs Tipper Gore, wife of Senator Al Gore, Mr Clinton's running mate, in Maryland. The campaign also said registration booths were set up at football games across the country.

Later, Mr Clinton appeared at a crab feast in Fairfax County, a Washington suburb and one of the nation's wealthiest communities. The crowd there was almost all white.

Demonstrators met Mr Clinton with chants supporting President George Bush.

NEWS IN BRIEF

Taiwanese lawyers seek tycoon's release

LAWYERS for Mr Oung Ta-ming, a Taiwanese textile tycoon, renewed efforts to obtain his release from jail at the weekend amid fears that his detention could have serious repercussions on the stock market, Reuter reports from Taipei.

Mr Oung, whose Hualon group is one of the largest in the market, was arrested on Thursday for failing to make scheduled court appearances on charges of involvement in a S$22m (US$13.8m) stock scandal, the island's biggest.

The Taipei District Court, rejecting claims that he was too sick to stand trial, on Friday ordered him detained without bail, citing the possibility of him fleeing abroad. Mr Oung's lawyers petitioned the court again on Saturday to release him on bail saying his health was deteriorating.

Newspapers reported that the court would consider the petition today when it reopened after the Mid-Autumn Festival public holidays.

New strike threat at GM

A new strike threat faces General Motors this week, only days after the largest of the Detroit car manufacturers settled a labour dispute which idled plants in seven states, writes Nikki Tait in New York.

Late on Friday a branch of the the United Auto Workers union at the Inland Fisher Guide division in Anderson, Indiana, requested that union leaders issue the required five-day notice for strike action by employees at the plant. At issue are a variety of local grievances, including GM's proposed transfer of some work to outside companies.

The issuing of a strike notice by union leaders is not automatic. However, if strike action did go ahead at the plant – which makes accessories for cars and trucks assembled on the continent – it would cause considerable disruption to operations.

Date set for fixing border

Honduras and El Salvador will begin defining their new border by December following an International Court of Justice ruling that ended a century of border disputes, a Honduran diplomat said at the weekend, Reuter reports from Tegucigalpa, Honduras.

The court ruling on Friday gave Honduras 69 per cent of the 419km of territory in dispute, with the remainder going to El Salvador, which gained the islands of Meanguera and Meanguerita in the Gulf of Fonseca.

The court assigned Honduras the island of Zacate Grande in the Gulf of Fonseca, the diplomat said. Both countries must begin laying out their new border no later than December 11 according to the ruling, he added.

Afghan buffer force intervenes

A neutral Afghan buffer force has pushed government forces and rival dissident Hezb-i-Islami fighters out of positions to the south of Kabul to try to bring lasting peace to the battered city, a provincial commander said yesterday, Reuter reports from Kabul.

"We have taken over the positions of the government and Hezb-i-Islami," Haji Hayat Khan said. "There was no problem, no violence."

He commands 1,000 men stationed at two posts on Kabul's eastern outskirts. A few days ago fighters of the radical Hezb-i-Islami manned a checkpoint in the same place.

Labor pins its election hopes on Kiwi-bashing

The Australian party is prepared to go to extreme lengths to fend off the prospect of political oblivion, writes Kevin Brown

TELEVISION viewers in Victoria, Australia's second most populous state, have been entertained recently by a series of Labor party advertisements showing disgruntled New Zealanders complaining about their conservative government.

The campaign provoked an exchange of insults between Melbourne and Wellington, including a graceless jibe by Mr Jim Bolger, the New Zealand prime minister, about the physical appearance of Mrs Joan Kirner, Victoria's Labor premier.

It was an unedifying incident which is probably best forgotten, except that it illustrates the lengths to which Labor is prepared to go to fend off the looming prospect of virtual political oblivion.

Labor has been the dominant force in Australian politics since the defeat of Mr Malcolm Fraser's tired and ineffectual conservative coalition by Mr Bob Hawke in 1983.

Mr Hawke, together with Mr Paul Keating, then deputy prime minister, and state leaders such as Mr Neville Wran in New South Wales, Mr John Cain in Victoria, Mr John Bannon in South Australia and Mr Brian Burke in Western Australia (WA), gave Labor a modern, technocratic image at odds with its class-based past.

For a while it looked as though Labor had emerged as Australia's natural party of government, especially when the conservative Liberal and National parties began to fragment in the face of personal and ideological tensions.

There were big differences between the style and policies of the various Labor leaders. Mr Hawke's generally free-market and deregulatory approach contrasted sharply, for example, with the interventionist policies pursued by Mr Cain.

Nevertheless, the Labor vote was swollen almost everywhere by the economic boom which swept the country between 1983 and 1990. By the end of the decade the party was in power in Canberra and in every state except New South Wales.

Two years into the 1990s, every one of Labor's big names of the 1980s has retired in the face of public disapprobation, with the sole exception of Mr Keating, who forced Mr Hawke aside after a messy leadership struggle in December.

Since 1990 Labor has faced an election only in the small island state of Tasmania, where it was defeated by the Liberals. But the electoral cycle is gathering pace, and the party faces the prospect of further defeats in Canberra and three other states over the next 18 months.

Much of the decline has been caused by regional issues, notably poor economic management which has forced Victoria and South Australia to bail out failed state-owned financial institutions, and a long-running scandal in Western Australia over allegedly corrupt links between ministers and local businessmen.

Thanks to good electoral management, the first test will come this Saturday in Queensland, where Labor has a good chance of retaining the power it won in 1988.

However, while the Queensland poll will be good for Labor morale, the likely victory will be based on local issues with little relevance elsewhere – mainly continued repugnance at the corruption of the previous National party government of Sir Jo Bjelke-Petersen.

A more reliable guide to national political sentiment will come on October 3, when Mrs Kirner's Victorian Labor government goes to the polls in an election it has almost no chance of winning.

If Labor's unpopularity was based solely on state issues, the federal government would have little to worry about, since Australian voters frequently switch between parties at federal and state elections.

But the opinion polls show that voters are also holding the federal government responsible for a recession and weak recovery which has increased unemployment to more than 11 per cent since the economy began to slow in 1989.

Mr Keating's strategy has been to pump-prime the economy through a series of economic packages, while trying to divert attention from economic issues through campaigns to change the flag and abolish the monarchy.

Meanwhile, the conservative coalition has been revitalised under the leadership of Mr John Hewson, the Liberal leader, who has put forward a comprehensive plan to shake up Australian industry through labour market reform and free trade.

Perhaps unwisely, Mr Hewson has let it be known that he admires the economic transformation wrought by successive New Zealand governments, which have substantially improved competitiveness by liberalising the capital and labour markets, squeezing out inflation and abandoning protective tariffs and subsidies.

In the short term, however, the more obvious effects of change in New Zealand have been a lengthy recession and social dislocation caused by privatisation and government spending cuts.

It is this aspect of the New Zealand experience which is providing ammunition for Labor in Victoria, and for federal leaders such as Senator Peter Cook, the employment minister, who recently suggested that Wellington was creating an economic underclass which would subsequently flee to Australia.

The strategy has the dual advantage for Labor of presenting the conservatives as free-market demagogues while also playing to the widespread Australian prejudice against New Zealanders.

Kiwi-bashing is an old sport among Australians, some of whom find disparaging their closest cousins a useful element in the national struggle to define a distinctive post-colonial identity. However, in the absence of a rapid improvement in the economy, and a consequent decline in unemployment, it is unlikely to save Labor from the consequences of its own mismanagement.

Bashing the Kiwis may also be a more risky strategy than Labor leaders think. The signs are that New Zealand is achieving a return to non-inflationary growth. By the middle of next year, when the next federal election must be held, that could be a severe embarrassment for Mr Keating.

Pakistan flood toll climbs to 1,700

AT LEAST 1,700 people are feared to have died in floods and torrential rains which hit parts of Pakistan towards the end of last week, writes Farhan Bokhari in Islamabad.

There are also fresh fears that the country's economy may suffer due to widespread damaged caused to the cotton crop, regarded as the agricultural backbone. Experts were yesterday continuing their assessment of the crop after Mr Majid Malik, the agriculture minister, said as much as half the cotton in Sindh had been destroyed. Output is also expected to fall in the cotton fields of Punjab.

According to weekend estimates by the government of the semi-autonomous Northern Kashmir state, at least 1,000 are feared dead in that area alone, in addition to another 700 in parts of Pakistan's Punjab province.

Road networks are gradually being restored, and relief camps set up.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985 = 100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−159.7	0.7623	100.0
1986	230.9	−140.6	−150.0	0.9836	80.2
1987	220.2	−131.8	−141.6	1.1541	70.3
1988	272.5	−100.2	−107.0	1.1833	66.0
1989	330.2	−99.3	−91.8	1.1017	69.4
1990	309.0	−79.3	−70.9	1.2745	65.1
1991	340.9	−52.3	−3.0	1.2391	64.5
3rd qtr.1991	89.4	−18.0	−9.4	1.1732	66.5
4th qtr.1991	87.8	−12.4	−5.7	1.2548	63.3
1st qtr.1992	87.3	−11.6	−4.2	1.2623	63.5
2nd qtr.1992	88.8	−16.3		1.2717	63.8
August 1991	29.3	−5.8	n.a.	1.1758	66.6
September	29.6	−5.4	n.a.	1.1929	65.3
October	30.5	−4.9	n.a.	1.2082	64.6
November	29.6	−3.3	n.a.	1.2568	63.2
December	27.7	−4.3	n.a.	1.2993	62.0
January 1992	27.4	−4.5	n.a.	1.2926	61.9
February	29.8	−2.6	n.a.	1.2634	63.4
March	30.1	−4.5	n.a.	1.2309	65.1
April	29.3	−5.7	n.a.	1.2436	64.8
May	28.2	−5.6	n.a.	1.2678	63.8
June	29.4	−5.1	n.a.	1.3039	62.3
July			n.a.	1.3693	60.5

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	230.8	76.0	64.5	180.50	100.0
1986	211.1	96.2	86.9	165.11	124.4
1987	197.3	86.1	75.5	166.58	133.2
1988	219.8	80.7	66.6	151.51	147.3
1989	245.3	70.5	52.4	151.87	141.9
1990	220.0	50.1	28.3	183.94	126.0
1991	247.5	83.2	63.0	168.44	137.0
3rd qtr.1991	65.8	23.2	16.6	159.94	138.5
4th qtr.1991	62.9	23.7	18.2	162.38	141.2
1st qtr.1992	64.9	25.9	22.6	162.21	142.2
2nd qtr.1992	63.1	25.4	22.5	165.61	139.9
August 1991	21.8	7.9	5.9	160.87	138.2
September	22.1	7.9	6.4	160.42	138.7
October	21.8	8.0	5.6	157.77	142.4
November	20.9	7.4	5.9	162.99	140.9
December	20.3	8.3	6.6	166.37	140.2
January 1992	21.4	7.9	5.6	161.84	143.8
February	21.6	9.3	7.6	161.18	143.3
March	21.9	8.7	9.5	163.61	139.6
April	20.9	7.5	7.5	165.92	138.2
May	20.9	9.4	8.6	165.57	139.7
June	21.3	8.5	6.4	165.32	141.7
July	20.5	8.4	7.0	172.21	139.2

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	242.8	33.3	21.7	2.2260	100.0
1986	248.6	53.5	40.3	2.1279	108.8
1987	254.3	56.7	39.8	2.0710	115.3
1988	272.6	61.6	42.9	2.0739	114.6
1989	310.2	65.2	52.2	2.0681	113.5
1990	324.6	51.7	37.0	2.0537	119.1
1991	327.3	11.0	−16.1	2.0480	117.7
3rd qtr.1991	83.5	2.4	−5.0	2.0430	116.5
4th qtr.1991	84.0	5.8	−1.8	2.0382	118.5
1st qtr.1992	83.0	2.7	−4.3	2.0422	118.8
2nd qtr.1992	80.6	3.4	−4.8	2.0511	118.7
August 1991	26.9	2.1	−1.6	2.0514	116.5
September	27.2	0.2	−0.6	2.0263	117.1
October	27.3	1.5	−1.5	2.0417	117.1
November	29.0	1.9	0.9	2.0406	118.6
December	27.8	2.4	−1.2	2.0325	119.9
January 1992	26.9	−0.4	−3.2	2.0365	119.3
February	27.7	1.1	−0.9	2.0443	118.6
March	28.5	2.0	−0.2	2.0456	118.4
April	29.5	2.5	−0.9	2.0483	118.6
May	26.2	0.2	−1.9	2.0551	118.4
June	24.9	0.6	−1.9	2.0498	119.1
July			−3.8	2.0410	120.7

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	−3.6	−0.2	6.7942	100.0
1986	127.1	0.0	3.0	6.7946	102.6
1987	128.3	−4.6	−3.7	6.9265	103.0
1988	141.9	−3.9	−3.4	7.0354	100.8
1989	162.9	−6.3	−3.6	7.0169	99.8
1990	170.1	−7.2	−7.2	6.9202	104.8
1991	175.3	−4.3	−4.7	6.9643	102.7
3rd qtr.1991	44.9	−1.3	−0.6	6.9441	101.8
4th qtr.1991	44.9	0.3	0.4	6.9598	102.8
1st qtr.1992	45.4	0.8	−1.1	6.9492	103.4
2nd qtr.1992	46.2	1.5	0.8	6.9122	104.4
August 1991	14.7	−0.40	0.35	6.9717	101.8
September	15.1	−0.36	−0.51	6.8935	102.2
October	15.5	0.67	0.86	6.9609	101.9
November	15.0	−0.00	−0.14	6.9735	102.6
December	14.3	−0.38	−0.31	6.9451	103.7
January 1992	14.9	0.52	−0.14	6.9476	103.6
February	15.0	0.10	−0.00	6.9572	103.3
March	15.4	0.22	−0.98	6.9429	103.4
April	15.8	1.09	0.17	6.9274	103.9
May	15.0	0.59	1.32	6.9090	104.5
June	15.4	−0.17	−0.64	6.9001	104.9
July	15.5	0.90		6.8872	106.0

ITALY

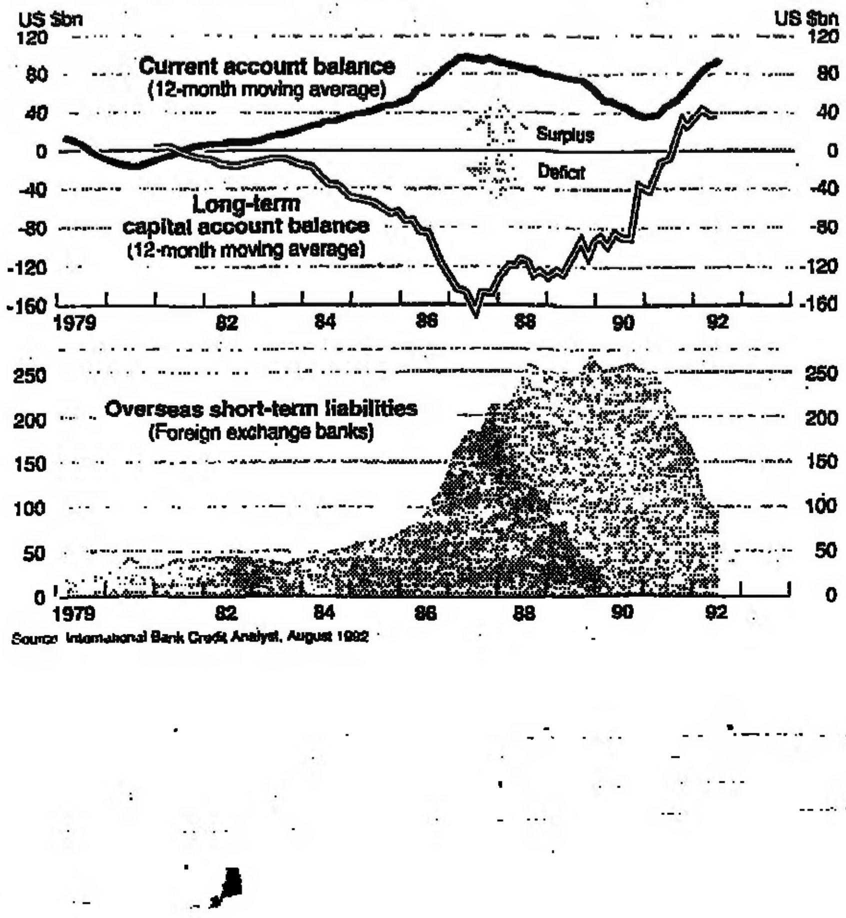
	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	−16.0	−5.4	1443.0	100.0
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	100.7	−7.5	−2.1	1494.3	101.2
1988	108.3	−8.9	−8.0	1536.6	97.6
1989	127.8	−11.3	−14.0	1509.2	98.6
1990	133.6	−9.3	−19.4	1523.2	100.6
1991	137.0	−10.5	−28.0	1531.3	98.9
3rd qtr.1991	31.9	−1.7	−5.5	1525.4	98.1
4th qtr.1991	37.3	−1.2	−8.3	1533.8	98.8
1st qtr.1992	34.3	−5.1	−7.6	1535.7	99.0
2nd qtr.1992	35.8	−3.6	−11.1	1546.3	98.5
August 1991	7.5	0.2	−0.4	1533.0	98.0
September	11.1	−2.0	−2.8	1513.9	98.5
October	13.1	−0.9	−2.5	1528.5	98.5
November	11.1	−1.6	−2.5	1537.6	98.7
December	13.1	1.2	−3.3	1537.4	99.1
January 1992	10.7	−2.0	−3.2	1534.9	99.1
February	11.4	−1.4	−2.2	1535.6	99.0
March	12.1	−1.6	−2.1	1536.7	98.8
April	11.7	−1.2	−3.9	1542.0	98.6
May	11.5	−1.9	−3.4	1546.6	98.5
June	12.7	−0.5	−3.8	1550.3	98.5
July		−0.8		1546.2	99.5

UNITED KINGDOM

Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	
132.4	−5.7	4.7	0.5890	100.0	1985
108.3	−14.2	0.1	0.6706	91.6	1986
112.3	−16.4	−6.4	0.7047	90.1	1987
120.9	−32.3	−24.3	0.6643	95.5	1988
137.0	−36.7	−32.3	0.6728	92.6	1989
142.3	−26.3	−23.6	0.7150	91.3	1990
147.8	−14.7	−9.0	0.7002	91.7	1991
37.9	−3.4	−2.0	0.6959	90.7	3rd qtr.1991
37.1	−3.7	−2.4	0.7069	90.9	4th qtr.1991
36.7	−4.3	−4.0	0.7125	90.6	1st qtr.1992
37.9	−4.5	−3.7	0.7034	92.3	2nd qtr.1992
12.9	−1.2	−0.72	0.6987	90.7	1991 August
12.3	−1.3	−0.82	0.6924	91.0	September
12.3	−1.3	−0.86	0.7014	90.5	October
12.3	−1.4	−0.95	0.7076	91.0	November
12.6	−1.0	−0.56	0.7116	91.2	December
11.6	−1.6	−1.54	0.7131	90.8	1992 January
12.6	−1.4	−1.34	0.7105	90.9	February
12.5	−1.2	−1.17	0.7141	90.1	March
12.4	−2.0	−1.67	0.7076	91.4	April
13.0	−1.2	−0.94	0.7000	92.8	May
12.5	−1.3	−1.06	0.7027	92.9	June
12.3	−1.6	−1.31	0.7137	92.5	July

All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Japanese capital account



Source: International Bank Credit Analyst, August 1992

Deflationary effects of Japan's domestic difficulties

JAPAN'S current account surplus spells danger for the world economy, but not for the reasons US politicians would have us believe. The surplus is a product of the changed international pattern of Japanese capital flows that has resulted from Japan's domestic financial problems. It is the deflationary consequences of Japan's long-term capital surplus and short-term capital deficit, rather than unfair competition from Japanese companies, that should be worrying US and European policy-makers.

Japan's current account surplus has been rising since 1990. Depressed domestic demand for imports and a surprisingly robust export performance have increased the surplus, in dollar terms, almost to its peak level of the mid-1980s. The surplus, measured in Ecus, more than doubled between 1990 and 1991, as the table shows.

Yet while Japan's current account surplus looks familiar, the capital flows which finance this surplus are very different. The balance of payments must, by definition, balance: any surplus on the current account must be offset by a deficit on the capital account. But today's capital flows take a different form from five years ago, with different implications for the world economy.

Japanese capital provided the oil which smoothed world economic growth in the second half of the 1980s. The flow of funds into Japan from its net export earnings was offset by an outflow of long-term capital – foreign direct investment, bonds and securities – as Japanese institutions responded to low domestic interest rates and financial deregulation by expanding their international portfolios. Japanese banks increased the value of their international assets by 200 per cent between 1985 and 1990.

The outflow of long-term capital from Japanese investors and companies exceeded the earnings on the current account, as the upper chart shows. The balance of payments balanced because the short-term capital account was also in surplus. Japanese banks used a portion of the short-term foreign currency deposits they obtained from international investors to fund their lending to domestic Japanese companies. The rapid growth of Japanese business investment was, in part, financed by a net short-term capital inflow.

The collapse of Japan's "bubble" economy and the ensuing difficulties of the financial sector have reversed these capital flows. As the current account surplus began to rise, the long-term capital account also moved into surplus in 1991, for the first time since 1980. Japanese investors have reduced their international portfolios while foreign investors have increased their holdings of Japanese equities. And the flow of Japanese foreign direct investment has been sharply curtailed. Japanese FDI was $30.7bn in 1991, against $48bn in 1990.

The combined current and long-term capital account surplus since 1991 has been matched by a short-term capital outflow. But this time the outflow has had a contractionary, rather than expansionary, effect on world financial markets. Japanese banks, burdened with non-performing domestic loans and required to meet the Bank of International Settlements capital-asset ratios by next year, have pulled in their horns.

The short-term capital outflow results from banks' efforts to reduce their stocks of foreign liabilities, as the lower charts show. The latest BIS annual report showed that the decline in gross international banking activity last year was fully accounted for by a 9 per cent contraction in Japanese banks' balance sheets.

The global supply of new credit has effectively ground to a halt as a result. But the problems of Japanese banks are far from over, despite the recent stock market rally. Until their bad debts are cleared from their balance sheets, they are likely to remain cautious about new lending. Throw in the effects of heavy personal and commercial sector debts in the US and UK, and high interest rates across Europe, and the outlook for the world economy remains decidedly deflationary.

Edward Balls

Top bosses want pound in ERM despite growing doubts

By Tony Jackson, Industrial Editor

MOST big company bosses still support Mr John Major in his defence of sterling within the European exchange rate mechanism. But a significant number are beginning to have doubts. Several are in outright opposition.

The Financial Times has conducted a straw poll among chairmen and chief executives of the UK's 100 biggest companies. The most outspoken opponent was Sir Owen Green, chairman of the industrial conglomerate BTR.

Last week, when BTR announced increased profits for the first half, Sir Owen said the political focus on the extinction of inflation was helping to create market conditions "resembling an economic desert".

He later told the FT "I think we ought to go in for a free float and be done with it. Then we'll know where we are. It's no good just devaluing against the D-Mark. That still ties us to a country which has several years of structural change ahead of it. I don't understand the general apprehension about free floating. I put it down either to ignorance or to fear of the unknown".

Other opponents were less forthright and less willing to be identified. The chief executive of a textiles group said that although he thought sterling should stay in the ERM, there should be a realignment against the D-Mark. "The key thing our industry needs is a 3 per cent reduction in interest rates and sterling at $1.75 or lower", he said. "I don't think we could get interest rates down on our own, but a realignment would help us out on the dollar".

The chief executive of a food group said "inasmuch as the ERM helps us get inflation down, that's terrific. I wouldn't come out unilaterally. But on the other hand, I can't see the ERM surviving. What's finally going to make it crunch, God knows, but something will. The system is inflexible, and everything we do in trade and commerce needs flexibility".

The point was echoed by the chief executive of another consumer group. "As a businessman, I don't like being boxed into a corner. I've come to the personal conclusion that we've got to realign. Devaluing might push the inflation rate up a bit, but I don't mind 3 or 4 per cent inflation if it gets growth back into the economy".

Even some supporters of government policy expressed reservations. A company chairman said "I would advocate sticking to the present ERM parities, because somehow or other we need to get credibility for sterling. Inflation is a bloody great evil which needs stamping out of the system, and maybe for the British this is the only way to do it. But the price being paid is enormous, and it's not at all clear that the Germans are right in their monetary policy".

The chairman of a retailing group said that although he did not believe in devaluing, neither did he think that was the real issue. "The real question is how to get growth into the economy", he said. "That's a matter of consumer and industrial confidence. Now we're in I'd rather we stayed in, because it would be a huge blow to confidence if we came out. But the real problem is that everyone seems bereft of ideas on how to get confidence back. You can't just leave it to the market".

There remains a hard core of businessmen who believe that there is no alternative to the present policy. Mr Chris Haskins, chairman of Northern Foods, has not always seen eye to eye with the government. But on this issue, he said, the UK had to stick with it.

"The alternative is just too horrible. It must surely be just a question of time before German rates come down, because they can't stick it out either. It may be a horrible mess at present, but it would be crazy to make a move before the French referendum or the US elections.

"If by the end of the year the dollar is still as low and German interest rates are still as high, that might be a different matter", Mr Haskins continued. "But in that case we'd all be in a mess. It's an illusion to think that this is just a domestic problem any more. Things are not as dire for us as they are for the Scandinavians or the Italians".

The chairman of a manufacturing multinational said "I wasn't a supporter originally. But having gone in, I see no alternative to slogging it out. Otherwise we would just return to the old days of boom and bust. In any case, the underlying weakness in the world financial system means I'm not sure what a reduction in interest rates would do to kick-start the economy."

Mr David Lyon, chief executive of the packaging group Bowater, said "getting in at the level we did provided us with a rod for our own backs. But looking out ten years or more, I believe that is necessary and can be lived with. If you have a business which is highly exposed and is a long way from being competitive with its peers in Germany and France, that's tough. But if we want to get into Europe and into world markets, it's a good discipline. If we were to devalue by 10 per cent or so, we would all heave a sigh of relief and stop making progress."

The point about European competitiveness was picked up by Mr Barrie Stephens, chairman of the engineering group Siebe. "I think it's screamingly painful, and it's going to be, but we have to stick to it. That's what the other ERM countries are doing, and we've got to keep pace with them. I don't think retiring into insularity is an option, even if it would be more comfortable in the short run".

Smith challenged on Maastricht strategy

By Philip Stephens, Political Editor

MR JOHN SMITH yesterday faced a direct challenge to his authority as leader of the opposition Labour party when three members of the shadow cabinet joined forces to attack his strategy over Maastricht and the pound. The challenge came as Mr John Major, the prime minister, faced pressure to announce a decision on the nomination of Mr Neil Kinnock, the former opposition leader, as Britain's second commissioner in Brussels.

If Mr Major refuses the nomination of Mr Kinnock, it would mark an important break with tradition. But Mr Major, who is said to have indicated in July that he would support the appointment, faces the threat that Mr Kinnock's appointment could inflame opposition to Maastricht among Conservative MPs.

Divisions which have been simmering within the Labour shadow cabinet yesterday turned into outright rebellion. Mr Bryan Gould, the most outspoken critic of official policy, was joined by Mr Michael Meacher and Mr David Blunkett in public calls for a referendum on the treaty and in a demand that Labour should be ready to back a realignment of currencies in the European exchange rate mechanism.

Mr Gould warned that the pound had become a "virility" symbol which was holding back recovery and urged Mr Smith to demand a renegotiation of the "flawed" Maastricht agreement.

In a blunt challenge to Mr Smith, Mr Blunkett said: "The unity expected of us in the shadow cabinet should not be the unity of the graveyard". Mr Meacher said the constitutional issues raised by the treaty were such that they could only be decided after "direct consultation" with the British people.

The three rebels believe that they are reflecting growing disillusion within the rank and file of the Labour party with Mr Smith's apparent refusal to attack the government's economic and European strategies. Yesterday a letter signed by 13 of the party's MEPs called on the leadership to renounce its support for Maastricht in the wake of its rejection by Danish voters.

Britain in brief

Big investors expect Yes in France

UK institutional fund managers overwhelmingly believe the French people will vote Yes in next week's referendum on the Maastricht treaty, according to a survey carried out for stockbrokers Smith New Court. Nearly two thirds of the fund managers did not expect sterling to be devalued within the European exchange rate mechanism if the French rejected the treaty.

Most investors also believed Germany's Lombard rate would start to fall from near-record levels of 9.75 per cent within the next three months. The investors expected a Lombard rate of 9.58 per cent in three months and 8.41 per cent in a year.

But with French opinion polls suggesting the vote is finely balanced, UK equity markets could be in for a sharp shock in the event of a No vote. "On the evidence of this survey a No vote is not in the market," Mr Peter Lyon, Smith New Court's global strategist says.

Ulster talks in danger

Ulster's political talks are in danger of collapse after bitter exchanges between Protestant unionists and representatives of the Irish government.

Mr James Molyneaux, the Ulster Unionist leader, said his party would withdraw from the process unless the Irish government indicated a willingness to remove its constitutional claim to Northern Ireland. He said the amendment of Articles 2 and 3 of the Irish constitution was central to the entire process.

But with Mr David Andrews, Irish foreign affairs minister, insisting that nothing is agreed until everything is agreed, there appears to be little scope for progress.

Corporate tax reform urged

The Institute of Directors has called for immediate reform of advance corporation tax (ACT). It says the existing system is a "burden" which distorts investment and location decisions more seriously in the UK than other countries.

Surplus ACT – tax payments on dividends which cannot be offset against mainstream corporation tax liabilities – has come under increasing attack.

The London Business School estimated last year that UK companies have more than £8bn in surplus ACT, and the amount is growing at £400m a year. The IoD prefers a return to the net UK rate system which operated until 1965, by which the tax repayment to shareholders paying less than the basic rate of income tax was limited to the difference between the UK and foreign tax rate at which they were liable.

Pay 'unrelated to profits'

Top directors' pay appears to be unrelated to their companies' performances, according to a review published today by Incomes Data Services, the research organisation.

IDS looked at the 69 largest quoted companies which reported results for financial years ending between September 1991 and March 1992. The median increase in annual total emoluments for the highest paid director in these companies was 7.9 per cent, although the average rise was higher, reflecting the wide distribution ranging from £1.73m to £148,000.

There seemed to be no discernible relationship between the individuals' earnings growth and company performance, IDS said. The highest paid director in 23 of the 26 companies whose profits and/or earnings per share fell substantially received a pay rise.

Small company audits 'needed'

The government should retain the requirement for small limited liability companies to be audited, according to the president of the Chartered Association of Certified Accountants.

Mr David Bishop, a partner with KPMG Peat Marwick, told the annual conference of the association, which represents 30,000 qualified accountants, many of whom audit small companies, that those seeking the abolition of the requirement were "wrong, out-dated in their thinking and naive".

Midland plans equity stakes

Midland Bank is to launch a nationwide initiative to provide equity finance to its business customers. The bank plans to provide funds in amounts of between £50,000 and £750,000.to

Previous attempts by UK clearing banks to provide equity directly to customers have not met with success though all have autonomous venture capital subsidiaries.

Midland said its Midland Growth Capital unit would employ venture capitalists to assess and monitor investments while bank managers would be carefully briefed on the type of customer best suited for equity finance.

It will provide ordinary and preference equity as well as loans to finance established, profitable small businesses. It would normally appoint a non-executive director to the board. Midland expects to invest in 12 to 20 companies a year.

Deadline for Jubilee Line

London Transport chiefs believe the planned extension of the Underground's Jubilee Line to Docklands will never be built if it is not given the go-ahead in the next few weeks. Construction was due to have started in April, but the project was put on hold after the financial collapse of Olympia & York's Canary Wharf development.

O&Y meeting, Page 19

Criticism of two key Cadbury proposals

By Norma Cohen, Investments Correspondent

THE TWO most significant aspects of a report aimed at improving the performance of British corporate boards may have to be altered, according to Sir Adrian Cadbury, who chaired the committee which drew up the recommendations.

The proposals in question would give non-executive directors special obligations to monitor the activities of executives and introduce a modest enforcement mechanism.

The draft report published in May by Sir Adrian's Committee on the Financial Aspects of Corporate Governance suggested a voluntary code of practice.

It also urged a new Stock Exchange listing requirement under which companies would have to disclose the extent to which they complied with the code and explain themselves where they did not.

Sir Adrian said:

"There is a great issue about the weight of the role assigned to non-executives. The question they raise is whether we would be dividing the board," Sir Adrian said. "We have used the word 'monitor'. People have questioned that".

He also said some respondents had objected to proposals urging the non-executive chairmen of the audit and remuneration committees to answer questions from shareholders at annual meetings.

While he stopped short of saying the committee would be forced to alter its original proposal, he said those sections would particularly have to be reviewed. A final version of the report is expected to be released in early November.

The Confederation of British Industry, in particular, has objected to the enforcement proposals in the Cadbury committee report, saying that they could lead to unnecessary bureaucracy. Sir Adrian said he believed that obtaining the CBI's support would be critical to its success because its members must voluntarily carry out its proposals.

THE WEEK AHEAD

UK COMPANIES

TODAY
COMPANY MEETINGS:
Aitken Hume Intl., Honourable Artillery Co., Armoury House, City Road, E.C., 12.30
Hiclare, St James Club, Manchester 10.00
Reliance Security Group, City of London Club, Old Broad Street, E.C., 12.00
Rexmore, Regent House, Rexmore Way, L'pool, 12.00
Tiphook, Le Meridien, Piccadilly, W., 9.30
BOARD MEETINGS:
Finals:
Dalgety
FII
Photo-Me Intl.
Second Alliance Tst.
Star Computer
Interims:
Airbreak Leisure
Aspen Comms.
Billam (J.)
Brit. Polythene Inds.
EIS
Forth Ports
Inchcape
Kingston Oil & Gas
Morgan Crucible
Ransomes
Roskel
Servomex
Sharpe & Fisher
USDC Inv. Tst.
Utd. Friendly

TOMORROW
COMPANY MEETINGS:
Alba, Harvard House, 14-16, Thames Road, Barking, Essex, 11.00
Beverley Group, Hyde Park Hotel, 66, Knightsbridge, S.W., 11.00
Nobo Group, 38 St Leonards Road, Eastbourne, 12.00
Porter Chadburn, The Brewery, Chiswell Street, E.C., 11.15
BOARD MEETINGS:
Finals:
AB Electronic
CALA
Domestic & General
Everest Foods
Haggas (John)
Osprey Comms.
Scholes
Trafford Park Estates
Interims:
Arjo Wiggins Appleton
Delta
Donelon Tyson
Jeyes
Kingfisher
Linton Park
Lopex
MB-Caradon
Martin Currie Pacific
Starmin
Tibbett & Britten
Trinity Intl.
Watmoughs

WEDNESDAY SEPT. 16
COMPANY MEETINGS:
Dudley Jenkins, 80, Fleet Street, E.C., 10.30
Wyko Group, Birmingham Botanical Gardens, Westbourne Road, Edgbaston, 12.00
BOARD MEETINGS:
Finals:
Alumasc
British Data Mngemt.
Close Bros.
Community Hospitals
Northern Indl Imprvmt Tst
Triton Europe
Interims:
Abbott Mead Vickers
Bluebird Toys
CI
Calor
Dartmoor Inv. Tst.
Eidos
FBD
Finlay (James)
Meggitt
Quarto
Stag Furniture
Steel Burrill Jones
Try Group
World of Leather

THURSDAY SEPTEMBER 17
COMPANY MEETINGS:
British Bloodstock Agency, Queensberry House, 129, High Street, Newmarket, 12.00
Christie Group, 8, York Street, W., 10.00
Coleiax & Fowler, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 11.00
de Morgan, 20, King Street, S.W., 11.00
Electron House, 17, Birkheads Road, Reigate, Surrey, 11.30
Goode Durrant, The Strand Palace Hotel, The Strand, W.C., 11.00
London International, Grosvenor House Hotel, Park Lane, W., 11.30
Matthew Clark, Thatchers Resort Hotel, Epsom Raod, East Horsley, Surrey, 12.00
Menvier-Swain, Southam Road, Banbury, 3.00
MITIE Group, Stable Block, Barley Wood, Wrington, Avon, 12.00
Scottish Hydro-Electric, Aberdeen Exhibition & Conference Centre, Aberdeen, 11.00
South Western Electricity, Riviera Centre, Torquay, 11.00
Tomkins, Hyatt Carlton Tower Hotel, Cadogan Place, S.W., 11.30
Westport Group, Brookmans Park Hotel, Brookmans Park, Hatfield, Herts., 10.00
YRM, 24, Britton Street, E.C., 11.30
BOARD MEETINGS:
Finals:
Dowding & Mills
Foreign & Col High Inc
Gabicci
Green (E.) & Partners
Logica
Polypipe
Thames TV
Tottenham Hotspur
Usher (Frank)
Interims:
APV
Baynes (Charles)
Bemrose
Bentalls
Campari Intl.
Canning (W.)
Christies Intl.
Davis Service
EBC
Eadie
Folkes
French Property Tst.
Goal Petroleum
Guinness
Halifax Bldg. Society
Kwik-Fit
Laporte
Legal & General
MTL Instruments
Magnolia
Mayborn
RMC
Sanderson Murray & Elder
Spandex
Wassall

FRIDAY SEPTEMBER 18
COMPANY MEETINGS:
Misys, Watermens Hall, 16, St. Mary at Hill, E.C., 12.00
Norbain Electronics, 14-16, Boulton Raod, Reading, 10.00
Ransom (Wm.), 104, Bancroft, Hitchin, Herts., 3.00
Siam Selective Growth Tst., 4, Kings Arms Yard, E.C., 11.30
Tinsley (Eliza), Birmingham Chamber of Industry & Commerce, 75, Harborne Road, Birmingham, 11.30
BOARD MEETINGS:
Interims:
Acsis
Breedon
Business Tech.
Fired Earth Tiles
Fisher (James)
Hornby
Macallan-Glenlivet
Olives Property
P-E Intl.

SATURDAY SEPTEMBER 19
BOARD MEETINGS:
Interims:
LGW

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

TODAY
ABN Amro DFL1.40
British Telecom 8.7p
Brunner Inv. Tst. 2.35p
Christiania Bank og Kreditkasse Fltg. Rate Sb. Nts. 2001 $229.27
Do. Fltg. Rate Sb. Nts. 1994 $271.25
Clarke Foods 0.75p
First Interstate O'seas Gtd. Fltg. Rate Sb. Nts. 1995 $137.08
Honeywell $0.4125
Kirin Brewery Y5
Malaysia Mining M$0.03
Midland Int. Fin. Services Gtd. Fltg. Rate Nts. 1999 $256.33
Reuters 5.3p
Royal Bank of Canada Fltg. Rate Db. 2085 $109.34
Royal Trustco Fltg. Rate Sb. Cap. Db. 2085 $240.25
Stanley Leisure 3.3p

TOMORROW
BankAmerica $0.325
Bankers Tst. New York Fltg. Rate Sb. Nts. 2000 $127.78
Bradford & Bingley Bldg. Society Fltg. Rate Nts. 1995 £256.08
Bromsgrove Inds. 2.5p
Brunswick $0.11
CSX $0.38
Dana $0.40
Dover $0.22
Edinburgh Inv. Tst. 3.65% Cm. Pf. 1.825p
Flash Ser.P Sec. Fltg. Rate Nts. 1993 (Tranche 2) $1111.67
FPL $0.61
Funding 6% 1993 £3.00
Gartmore Amer. Sec. 11⅜% Db. 2014 £5.6875
Grand Met. 6¼% Sb. Cv. Bd. 2002 £312.50
Guaranteed Export Fin. 10⅝% Gtd. Bd. 2001 £1062.50
Morrison (Wm.) Supermarkets 5¼% Rd. Cv. Pf. 2.625p
Pennzoil $0.75
Quebec (Province of) 12¼% Ln. 2020 £6.125
Ragby Gtd. Fltg. Rate Nts. Jun. 1997 $13333.61
Runicon 6% Cm. Pf. 4.2p
Seagram $0.14
Sweden (Kingdom of) 9¾% Ln. 2014 £487.50
Thomson $0.113
Trinova $0.17
TRW $0.45
Treasury 9% 1992/96 £4.50
Volvo Group Fin. Europe 10⅛% Gtd. Nts. 1993 Ecu100.41
Whirlpool $0.275
Yeoman Inv. Tst. Inc. 5.5p

WEDNESDAY SEPTEMBER 16
Agricultural Mortgage 7¾% Db. 1991/93 £3.875
Bullough 1.75p
Citicorp O'seas Fin. Gtd. Fltg. Rate Nts. 1994 $15.33
Creightons Naturally 5p
Holders Technology 2p
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1998 £258.06
Lloyds Bank Ser.C Var. Rate Sb. Nts. 1998 £270.53
Louisiana Land & Expln. $0.25
Santander Fin. Issuances Sb. Und. Var. Rate Nts. $3074.65
Telegraph 4.5p
Treasury 2% I.L. 1996 £1.99

THURSDAY SEPTEMBER 17
Anglo & Overseas Tst. 1.75p
Bradford & Bingley Bldg. Society Fltg. Rate Sb. Nts. 2005 £27379.45
Eve 7p
Ewart 0.5p
Pfizer $0.37

FRIDAY SEPTEMBER 18
Abbey National Treasury Services 9¼% Gtd. Nts. 1998 Ecu92.50
American Int. $0.14
Dudley Jenkins 2.65p
Nationwide Bldg. Society Sb. Fltg. Rate Nts. 2000 £275.56
North Midland Constrctn 0.3p
Sumitomo Realty & Dev. 6.1% Nts. 1998 Y116910.0
Do. 6.15% Nts. 1999 Y120069.0
Do. 6.2% Nts. 2000 Y125938.0
Do. Fltg. Rate Nts. 1996 Y124645.0
Trans-Natal Coal R0.57

SATURDAY SEPTEMBER 19
Ransomes 5½% Cm. Pf. 1.925p
Treasury 11½% 2001/04 £5.75

SUNDAY SEPTEMBER 20
Continental Bank $0.16
Exchequer 10½% 2005 £5.25
Japan Dev. Bank 6½% Gtd. Bd. 2001 Y65000.0

ECONOMICS

Market focus on Maastricht

SPECULATION about the outcome of the French referendum on the Maastricht treaty, to be held on Sunday, will dominate the week. Mid-month UK economic statistics are expected to show that the economy staggered through the summer, with virtually no signs of growth.

A flicker of activity in manufacturing output in the first half encouraged some economists to suggest it had "bottomed-out" in the first half of the year. However, the latest forecasts suggest economists believe the growth may not be sustainable

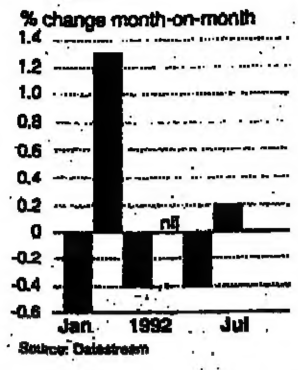
Other economic events this week follow. The figures in brackets are the median of economists' forecasts from MMS International.

Today: France, consumer prices index (up 0.2 per cent on month, up 2.9 per cent on year); Norway, trade excluding ships (DKr3.5bn surplus); Japan, August wholesale prices index (up 0.1 per cent).

Tomorrow: US, August CPI (up 0.2 per cent), ex food and energy (up 0.2 per cent), August retail sales (flat), ex autos (up 0.2 per cent), August real earnings, second quarter current account, auto sales September 1-10; UK, August producer prices index, input (down 0.3 per cent on month, down 0.5 per cent on year), output (up 0.1 per cent on month, up 3.3 per cent on year), excluding food, drink and tobacco (up 2.7 per cent on year); Sweden, August trade balance (SKr2bn surplus); Finland, August CPI; Germany, Federal bond consortium sets terms on new Treuhand bund; US, Federal Reserve governor Lindsay addresses NABR conference; Holland, Dutch 1993 budget presented to parliament.

UK manufacturing output

% change month-on-month



Source: Datastream

Wednesday: UK, August PSBR ($3.5bn), August retail sales (up 0.2 per cent on month, up 0.8 per cent on year); US, August industrial production (down 0.4 per cent), August capacity utilisation (78.5 per cent), July business inventories (flat); Canada, July manufacturing unfilled orders (down 0.5 per cent), Japan, July machinery orders, July industrial production.

Thursday: UK, July industrial production (up 0.2 per cent), July manufacturing output (flat on month, down 1.5 per cent on year). August unemployment (up 25,000), July average earnings (up 6 per cent), July unit wage costs (up 2.7 per cent, latest three months on year); US, July merchandise trade balance ($7bn deficit), exports ($37.8bn), imports ($44.7bn), initial claims for week ended September 5 (412,000), money supply data for week ended September 7; Canada, July merchandise exports (up 0.5 per cent), imports (down 2.5 per cent), July merchandise trade surplus (C$500m).

Friday: UK, Confederation of British Industry industrial trends survey, August M0, (down 0.1 per cent on month, up 2.4 per cent on year), August M4 (up 0.5 per cent on month, up 5.9 per cent on year), August M4 lending (£2.9bn), second quarter balance of payments (£2.6bn deficit); Canada, August CPI (up 0.2 per cent on month).

Saturday: US, G7 finance ministers meet in Washington.

Sunday: France, referendum on the Maastricht treaty; US, IMF Policy Making Interim Committee meets.

During the week: Germany, August WPI (down 0.5 per cent), PPI (down 0.1 per cent on month, up 1.0 per cent on year); Japan, August money supply (flat), second quarter GNP (up 0.5 per cent).

Emma Tucker

RESULTS DUE

Kingfisher, the retailing group, is likely to add its voice to tidings of depressed consumer spending when it releases its interim results on Tuesday.

The B&Q chain has faced pressure from a price war in the DIY trade, but Woolworths, Comet and Superdrug should have benefited from productivity gains.

Kingfisher has a knack of exceeding expectations and may report pre-tax profits above the £61m consensus forecast and last year's £62.5m.

Dalgety today reports profits for the year to end June. Forecasts centre on £115m pre-tax, up from £110.9m, with petfoods and snacks leading the way. Tougher trading conditions in milling, baking, food ingredients and animal foods are expected though.

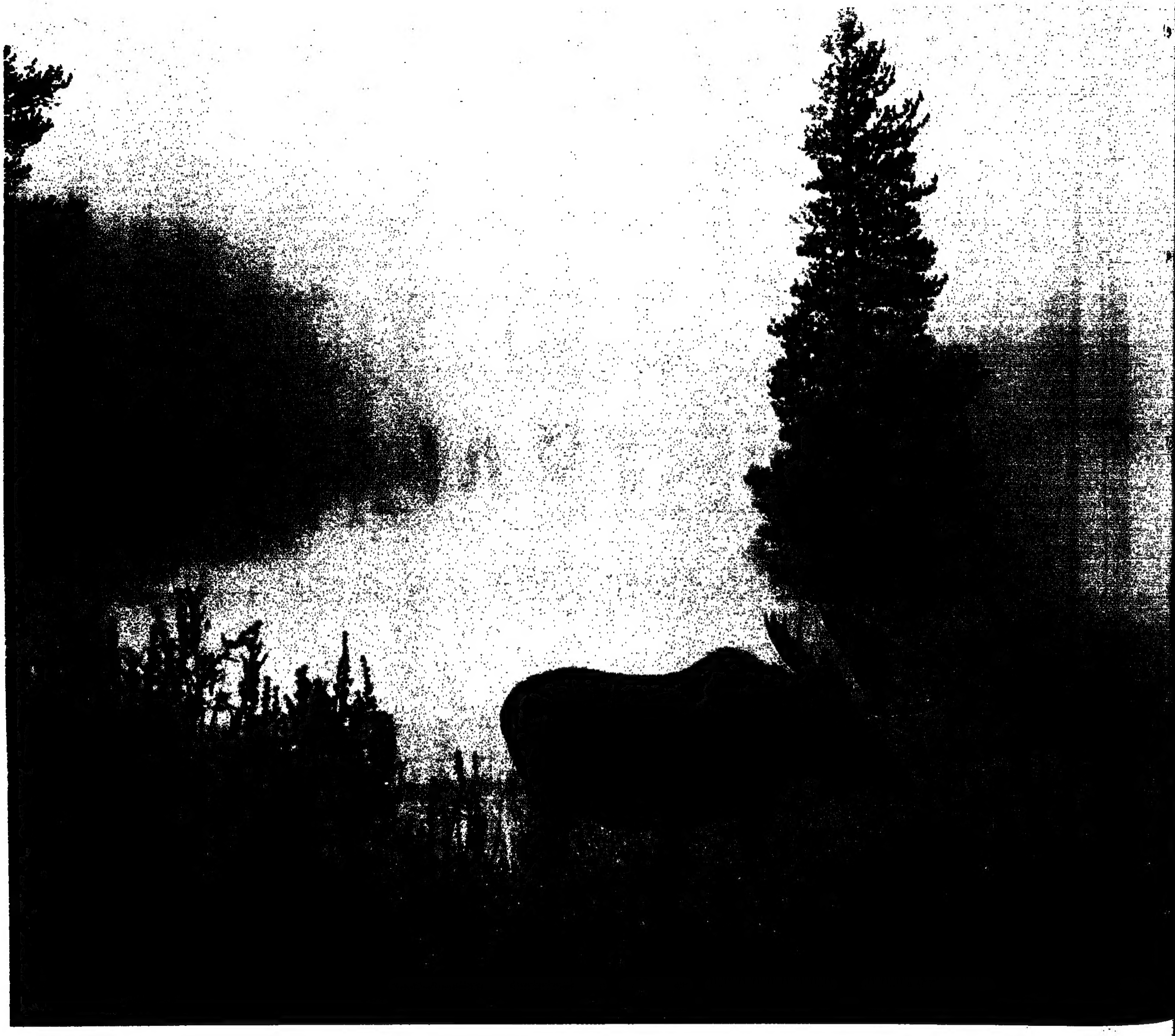
Inchcape, the international motor distribution, services and marketing group, is today expected to announce interim pre-tax profits of about £110m, compared with £91m. The figures are helped by the inclusion for the first time of Tozer Kemsley & Millbourn, the motor company acquired with the help of a £376m rights issue last December.

Tomorrow sees interim results from **MB-Caradon**, the building products and cheque printing group which has a quarter share in CarnaudMetalbox. Pre-tax profits are expected to have risen from £47.2m to £80m, helped by the use of the rights issue money raised last year and substantial cost-cutting measures.

Arjo Wiggins Appleton, the Franco-British paper group, also reports on Tuesday. Estimates for interim pre-tax profits range from £92m to £100m, compared with £135.5m. Analysts will ask about the extent to which AWA, a pulp buyer, has suffered from rising pulp costs and falling paper prices.

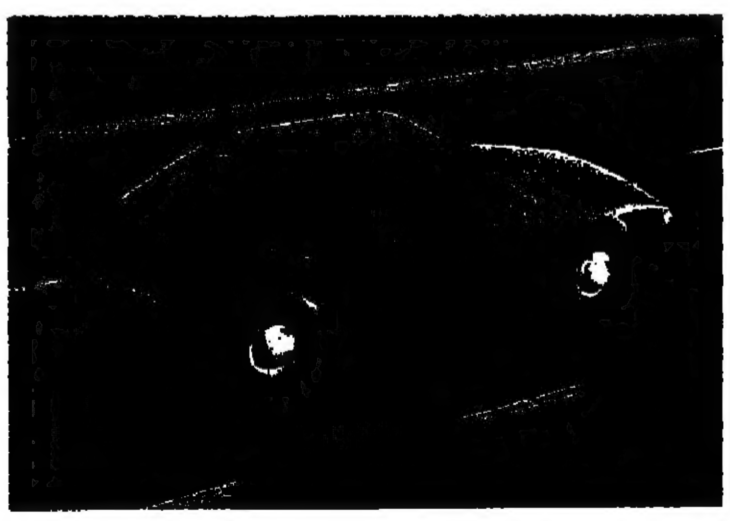
First-half results from **Guinness** on Thursday are expected to reflect economic weakness in its international markets. Analysts have trimmed forecasts of pre-tax profits to between £360m and £365m, an increase of 4 per cent on the 1991 interims. Full-year profits are still expected to top £1bn for the first time.

WHEN WAS THE LAST TIME YOU HIT AN ELK?



Sweden is a land populated by many elks that sometimes leave their forests and stray onto unprotected roads.

The adult elk is large, heavy and mostly dark. In winter, the Swedish countryside is mostly dark as well. Which explains why surprised Swedish



drivers and elks often collide. Apart from elks, Sweden offers other unexpected road hazards like ice, snow and mud.

Fortunately, Swedish roads are populated with many Saab 9000s. (In four separate international car safety studies, Saab headed the lists.) Saabs

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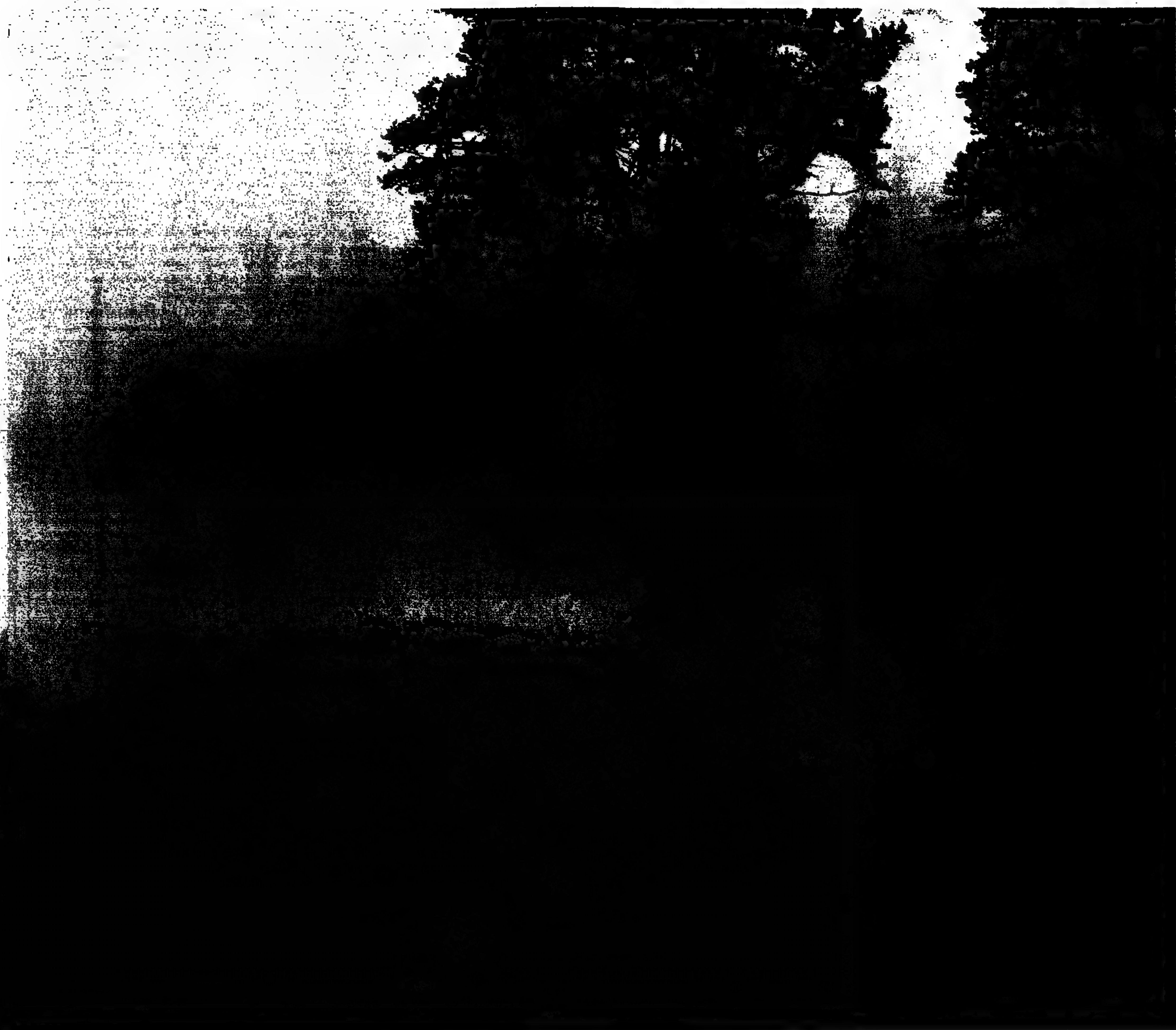


CONSTRUCTION CONTRACTS

Willmott Dixon busy

WILLMOTT DIXON companies have begun work during the summer on new building contracts totalling more than £50m for both private and public sector clients.

Willmott Dixon Symes, London, has started work on three contracts - a £1.2m refurbishment of two adjoining listed buildings for the National Provident Institution in Maiden Lane, WC2; a part refurbishment and part new build project for Bredero Centre West in Hammersmith valued at around £900,000; and a £700,000 employment services job centre in Wembley.

Willmott Dixon Southern, Basingstoke, has been awarded a £4m contract to build the clubhouse at the East Sussex National Golf Club for Thornbrook Properties, and a £850,000 contract for a major extension to the Douai Abbey Church at Upper Woolhampton in Berkshire.

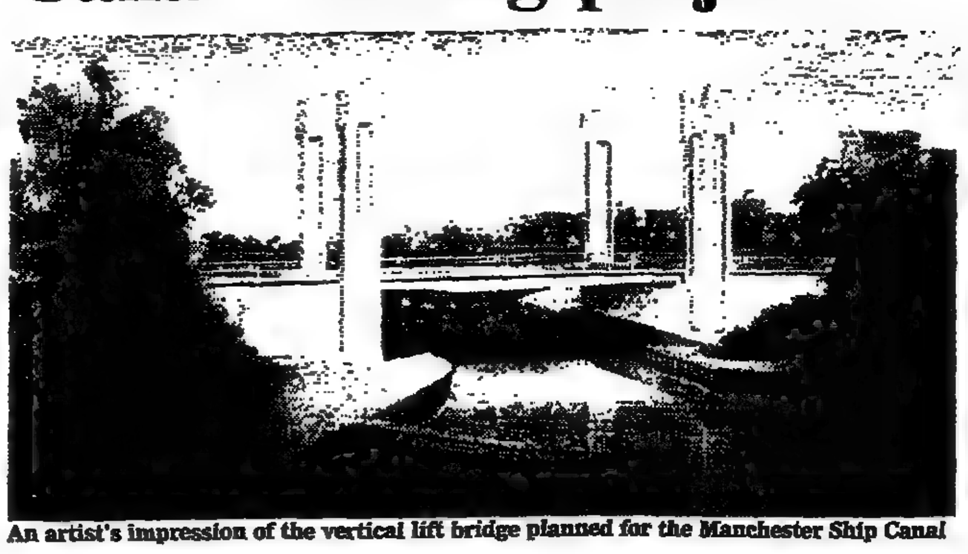
An £8m design and build contract for an extension to New Harlington School in Hayes, for the London Borough of Hillingdon, is being carried out by Willmott Dixon Eastern.

The same company has also won a £3.6m design and build contract for the construction of a radiodiagnostic, orthopaedic and rehabilitation block at Mount Vernon Hospital in Northwood for Hillingdon Health Authority.

Another design and build contract, valued at £1.3m, is being carried out on the first phase of a new retail park in Huntingdon for Churchmanor Estates of Ipswich, and Willmott Dixon Eastern is also refurbishing a shopping centre at Grays in Essex in a £2.3m contract for Ravenseft Properties.

Bass Developments has awarded a £4.6m contract for building its new corporate headquarters at Branston, Burton on Trent, to Willmott Dixon Midlands, Birmingham.

Canal crossing project



An artist's impression of the vertical lift bridge planned for the Manchester Ship Canal

AMEC CIVIL ENGINEERING, a member of the AMEC Group, has been awarded a £6m contract by Trafford Park Development Corporation to design and construct a vertical lift bridge over the Manchester Ship Canal.

The bridge, which is believed to be only the third of its kind to be built in the UK, will be the first low level crossing of the Manchester Ship Canal to be constructed since the canal was opened over 100 years ago. It will form a new entrance into Trafford Park, Manchester and will provide a new road crossing at a point approximately mid-way between the swing bridges at Barton and Trafford Road.

Forming the first stage of the link between the Parkway Roundabout in Trafford Park and the M602 motorway, the single span vertical lift bridge will consist of reinforced concrete abutments, cellular towers and an all steel deck spanning 41 metres across the canal.

The lift bridge will facilitate the passage of tall ships along the canal by the raising of the bridge deck to a height of 23 metres above water level.

Design work has already commenced with construction due to begin in November and contract completion scheduled for 1994.

Expansion at Clatterbridge Hospital

COSTAIN BUILDING CIVIL ENGINEERING has been awarded a contract worth £4.2m to extend Clatterbridge Hospital by the Wirral Hospital NHS Trust.

The construction comprises the design and construction of three buildings: a rehabilitation centre, a surgical and day case unit and a dermatology unit. A link will be provided to the hospital buildings, and all services and external works are included in the contract.

The units will be of traditional construction on piled foundations with a concrete tile pitched roof.

The project manager is the project design division of the Wirral Hospital Trust. The contract is due for completion in December 1993.

City of London Underground plan

BALFOUR BEATTY CIVIL ENGINEERING has been awarded the £1m contract to replace the pedestrian subway roof at Bank Station by London Underground.

This is not the first time Balfour Beatty has been commissioned to work on this site. At the height of the Blitz during World War II, a bomb fell on the main ticket hall of Bank Station, demolishing the roofing and, by the use of steel troughing infilled with concrete, the station was quickly repaired and made operational.

Now some 50 years on, above the roof lies one of the busiest road junctions in the City of London and because of the increased traffic, it has become necessary to bring it up to current loading standards. To facilitate this, the roof needs to be demolished and replaced.

Also included in the works are repairs to the existing brickwork and waterproofing. To ensure the station is operational at all times, the year-long programme involves careful phasing of the works.

London railway scheme

FRANK GRAHAM has been awarded a civil engineering design contract by CrossRail for the covered way and ramp at the Allen Garden section of this project. The value of the construction work is estimated at £7.5m.

Commencing at the eastern portals of the bored tunnel drive 15 metres below Shoreditch, the work comprises a 250 metre section of cut and cover, which may be carried out using continuous bored pile walls and "top down"methods of construction. This is followed by a 300 metre long ramp and viaduct which, initially, is in open cut before climbing to link with the existing viaduct at Vallance Road.

The CrossRail scheme, a joint development between London Underground and British Rail Network SouthEast, involves building a twin-bore tunnel, 9.6kms long, across central London between Paddington and Bethnal Green. This will link rail lines to Reading and Aylesbury in the west to those serving Shenfield in the east.

The £1.7bn scheme will reduce journey times across the region and relieve congestion on the London Underground.

Law courts

SIR FREDERICK SNOW (INTERNATIONAL) has commenced work on a law courts complex costing £4m in Victoria, on the island of Mahe in the Seychelles.

The contract comprises the provision of professional services in project management, planning, structural and services engineering and quantity surveying. The two-year project includes the refurbishment of a court building of 10,000 sq ft and construction of buildings totalling 45,000 sq ft.

New civic theatre in Yorkshire

LAING YORKSHIRE has been awarded the contract for the £5.2m conversion of a 173-year-old listed Georgian building in Huddersfield into a theatre.

Kirklees Theatre Trust selected the company to carry out the refurbishment of the former Queens Square Chapel to create a 465-seat civic theatre with small cellar theatre, foyer and bars.

Designed by Kirklees Metropolitan Council design practice, the main auditorium will have a flexible layout enabling it to be set as a conventional theatre with a stage at one end and an orchestra pit or with a thrust stage.

The cellar theatre will seat around 150 and will be used for alternative cabaret, fringe shows and small scale drama. The refurbishment and conversion work is due for completion in spring 1994.

British embassy

YEOMANS & PARTNERS, a P&O company, has been awarded a £450,000 contract to refurbish the British Embassy in Jakarta, Indonesia, for the Foreign & Commonwealth Office.

Work has already started to replace electrical installations, suspended ceilings and partitions within the embassy which will remain occupied and fully operational throughout the duration of the project.

Yeomans' success in Jakarta follows a series of shopfitting contracts in Czechoslovakia where it has fitted out two carpet and soft furnishing stores.

CONTRACTS & TENDERS

LEGAL NOTICES

HVS ELECTRICAL DISTRIBUTORS LIMITED (IN RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the creditors of the above named company will be held at Harman House, 1 George Street, Uxbridge, on 29 September 1992 at 10:30 am for the purpose of receiving a report prepared by the Joint Administrative Receivers and if thought fit to establish a committee ("the creditors committee") to exercise the functions conferred on it by or under the Insolvency Act 1986. Proxies to be used at the meeting must be lodged, together with any claim to be made by the creditor at the offices of the Joint Administrative Receivers, Harman House, 1 George Street, Uxbridge, no later than 12:00 noon on 28 September 1992.

Creditors whose claims are wholly secured are not entitled to attend or to be represented at the meeting.

I M Iredale
Joint Administrative Receiver
Date: 10 September 1992

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS

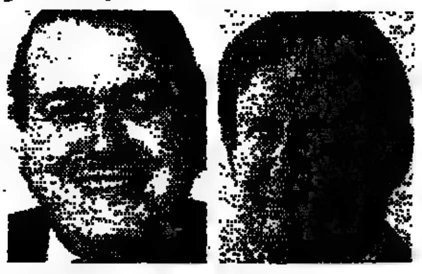
Registered Name. D & W BETTS LIMITED
Registered Number 817477
Trade classification: 5006
Names and addresses of Joint Administrative Receivers:
N. Ruddock, Robson Rhodes, The Galleria, Station Road, Crawley West Sussex RH10 1HY
N. H. Cooper, Robson Rhodes, 186 City Road London EC1V 2NU
Date of appointment: 8th September 1992
By whom appointed: National Westminster Bank PLC
Date of Charge: 2nd June 1989
Nature of Charge: Mortgage Debenture
N. Ruddock and N. H. Cooper
Joint Administrative Receivers

ART GALLERIES

هكذا من الأصل

PEOPLE

Runners in the Black Horse's final furlong



The race to find a successor to Lloyds Bank chief executive Brian Pitman is moving into its final furlong. The two front contenders – David Pirrie (right) and Paul Brown – are to swap jobs in a move which will be seen by many as a final testing ground for Lloyds' next chief executive.

The top management team of Lloyds Bank, the most successful of Britain's clearing banks, has been more stable than those of its rivals. However, chairman Sir Jeremy Morse, who has headed the group since 1977, retires next year and Brian Pitman, who has been chief executive since 1983, is already past the bank's normal retirement age. It is expected that he *will step down in 1995.*

Sir Robin Ibbs has already been tapped as Sir Jeremy's successor as chairman, but there has been more uncertainty about Pitman's replacement. Michael Hepher, the chairman of Lloyds Abbey Life, was an obvious candidate but he was headhunted at the end of last year to be group managing director of British Telecom.

Since John Davies, the deputy chief *executive, and Alan Moore, director of corporate* banking, are both in their late 50s, analysts believe that either Paul Brown, 50, or David Pirrie, 53, are front-runners to take over from Pitman.

Lloyds is using the opportunity of Frank Jones' retirement as director of international banking on November 16 to reshuffle their portfolios. David Pirrie, who joined the Bank of London and South America as a trainee in 1959, will become director of both international banking and private banking and financial services. Paul Brown, who is currently director of private banking and financial services, will take over Pirrie's old job as director of UK retail banking.

Pirrie, who joined the board in 1989, is the more senior. But some analysts believe that Brown, who joined Lloyds Bank Europe in 1960, has the edge since he is three years younger and is being put in *charge of one of* the weak spots of the group. If he can turn round the group's retail banking business, which employs two thirds of the staff, then he might well assure himself of promotion to the top job.

Philip Chappell decides to retire from AITC

Philip Chappell, a well known merchant banker who has tried *his hand at several different* jobs, is to retire as director of the Association of Investment Trust Companies in November, after several months of serious illness.

Chappell, 63, joined Morgan Grenfell in 1954 and spent over 20 years as a director. He was chairman of the National Ports Council between 1971 and 1977 and in 1980 spent a brief spell as chairman of computer makers ICL.

However, over the past few years he has switched from being a merchant banker to being a tireless campaigner for popular capitalism.

His main interests have been *wider share ownership*, personal pensions and of course investment trusts, having joined the AITC in 1986.

Chappell says he has been gradually recovering over the past few months and is still bubbling with ideas for the savings market. The chances are that he will continue as a regular correspondent on the FT's letters page.

Although Chappell only worked at the AITC around two days a week, the association is set to advertise for a full-time director general to replace him.

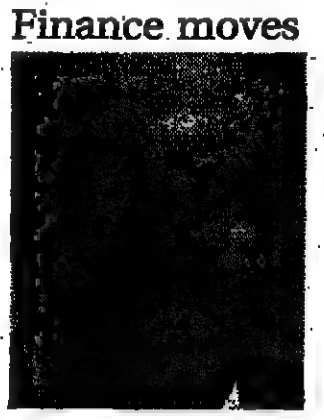
■ Kiyohiko Ito has been appointed md of KONICA BUSINESS MACHINES (UK).

■ Andrew Tansley has been appointed a director of the TUSSAUDS GROUP. He had been general manager of *Madame Tussaud Scenerama*, Amsterdam.

■ Maurice Wood moves from Hillsdown's Maple Leaf Foods to become md of TIBBETT & BRITTEN Group South Africa, formed to acquire South African Warehousing Services, and Martin Peters is promoted to become its operations director.

■ *John Taylor has been* appointed deputy md of YORKSHIRE WATER SERVICES.

Finance moves



■ *Derek Allan (above)*, formerly assistant general manager UK Banking – England, has been appointed chief manager of the BANK OF SCOTLAND's London chief office. *He is replaced by John Michie.*

■ Chris Wheeler has been appointed executive director and deputy head of research at LEHMAN BROTHERS INTERNATIONAL. Timothy Dawson, formerly with Merrill Lynch, and Carla Bakker, formerly with Morgan Stanley, have joined as directors. Jonathan Hakim has been appointed executive director and head of European financing coverage; he moves from UBS Phillips & Drew.

■ Yoichiro Suzuki, formerly ceo of Bank of Tokyo Asset Management, has been appointed md of MERIDIAN GLOBAL FUNDS MANAGEMENT's Japanese office.

Woolf to be a law lord

Sir Harry Woolf, the Appeal Court judge who headed an in-depth review of the prison system following the riot at Strangeways in 1990, has been appointed a Law Lord in succession to Lord Ackner who is retiring at the end of September.

Sir Harry, 59, whose name is linked in legal circles with the development of judicial review, had been widely tipped for promotion either to the House of Lords or as Lord Donaldson's successor as Master of the Rolls. His appointment as a Lord of Appeal in Ordinary seemed certain after Sir Thomas Bingham was appointed the new Master of the Rolls last month.

Their promotions, combined with the retirement of three other Appeal Court judges, have left a number of positions to be filled in the Court of Appeal. Sir David Hirst, Sir Simon Brown, Sir Anthony Evans, Sir Christopher Rose and Sir Leonard Hoffmann have all been promoted to the Appeal Court.

Hewlett joins Lonrho board

John Hewlett, chief executive of Lonrho's Mozambique agricultural, mining, hotel and motor distribution interests, and an associate director of the international trading group since January 1991, has been promoted to the main board.

A graduate of the Royal Agricultural College, Cirencester, 45-year-old Hewlett joined Lonrho in 1979. He worked as general manager of the Kalangwa Estates which, according to Lonrho, is its "showpiece" farm in Zambia.

At a time when the east Germans and Romanians no longer regarded Mozambique as a viable business proposition, Hewlett, who until then had spent his working life in Zambia, attracted attention by moving there and establishing four estates to grow cotton and food stuffs. Part of the job entailed recruiting a security force some 1,500 men strong.

Hewlett has also presumably had several recent visits from Lonrho chief executive Tiny Rowland, who has played a part in negotiating the peace agreement in Mozambique.

MANAGEMENT

Foreign companies working in the former Soviet republics are taking on bureaucracy, cultural differences and hyper-inflation in their search for quality

Bringing oil to troubled waters

When British Petroleum, the UK oil group, awarded a contract for four steel oil platform piles in the UK North Sea to a construction yard south of the Azerbaijani capital Baku, it met an unexpected problem. The yard had never before tendered for a contract and had no idea how much it should charge for the work.

"In the end we had to suggest a fair figure to them," a BP official explains delicately.

Not only the managers but welders at the ShelfProyektStroi (SPS) yard were also initially bemused by western working methods.

"They joked we were even more bureaucratic than the Soviets," says Peter Wells, Caspian region manager for BP Exploration. "They couldn't understand why every piece of work they did had to be checked and given a certificate."

A team of seven supervisors from BP, John Brown Engineering and RGC Offshore lived in Baku for several months. Workers were given special training and had to pass a proficiency test before they were allowed to participate in the project. Managers, meanwhile, were taught quality control techniques and received individual instruction on what their role should be. The experiment paid off, with the finished piles being passed for use in any international oil project.

"By the end they were asking us when we would be coming back with more work," says Wells.

BP may be back before long. Last week, together with joint venture partner Statoil, the Norwegian state oil company, it signed an agreement with Azerbaijan that could lead to the $1.5bn (£760m) development of the giant Chirag field in the Caspian Sea.

The deal, like Azerbaijan's previous deal with Amoco, and recent agreements by Chevron and British Gas-Agip with Kazakhstan, is significant. It shows that despite the well-publicised risks and problems, oil companies are mastering the art of doing deals with former Soviet republics.

Moreover, the smaller republics have proved rather more fleet of foot than the lumbering Russian bear when it comes to attracting Big Oil – with important implications for their economic recovery.

BP-Statoil's deal was, none the less, an uphill struggle. The alliance kept at least one person in Baku for most of the last two years, with frequent visits by teams of negotiators who ran up against a variety of problems. Some of those – poor communications and sometimes difficult working conditions – do not unduly trouble managers who have worked in countries such as Colombia, Nigeria and Vietnam.

Others were more peculiar to the former Soviet Union. One was the deep lack of understanding of western business among everyone from government officials downwards.

"You often have to sit down with people and spend a lot of time explaining very patiently the most basic concepts, like risk-reward, profit and loss, things that we take for granted," says Wells.

Another problem was suspicion and resentment in some quarters. Workers at the SPS yard were more open to western ways than their bosses. Government officials, meanwhile, were more eager to deal with BP than the local producing associations, Azerineft and Kaspmorneftegaz, whose top officials – many of them comfortably ensconced in their posts since pre-Perestroika days – reportedly did not take too kindly to western companies invading their patch.

Being forced to deal directly, but solely, with the top level of government can be preferable to getting bogged down in the bureaucracy, however. In Russia, for example, oil managers complain of having to negotiate simultaneously with local producing associations, regional governments, and, in the words of one western banker working with the Russian oil industry, "just about every Moscow ministry and committee that could possibly have any interest". In the smaller republics, oil managers are often able to go straight to the top and, provided they can get a binding deal ratified by parliament, they are happy to do this even in the absence of established legislation on property rights, taxation and royalties.

Both Chevron's and British Gas's negotiations in Kazakhstan were conducted with deputy prime ministers and were closely monitored by Kazakh President Nursultan Nazarbayev, who personally signed Chevron's deal.

Similarly, in Azerbaijan, BP-Statoil's deal was negotiated directly with the government and signed by Isa Gambarov, chairman of Azerbaijan's parliament and effectively number two to the president, Abulfaz Elchibey, who also took a keen interest. There are obvious risks to this approach: "If the government goes, so could our deal," one BP negotiator admitted privately.

While Elchibey is a democratically-elected and popular president, his position could become insecure, particularly if he fails to stop the fighting in the disputed Armenian enclave of Nagorno-Karabakh. However, the man seen as most likely to replace him, Itibar Mamedov, has a programme of accelerated democratisation and economic reform.

"There are risks everywhere, that's part of the oil business," says John Browne, chief executive of BP Exploration. Investment and oil are needed by any government, he says. There is also the argument that economic growth can itself promote political stability.

Barring political disaster, BP-Statoil's agreement may become an example of the benefits such deals can bring both to oil companies and to the host republic. At more than 1bn barrels, the field will be an important addition to BP's reserves.

Moreover, while some technology will have to be imported, BP-Statoil plans to construct as much as possible of the infrastructure at Baku's SPS yard. It will also employ Azerbaijanis offshore and in local management, which Browne says could provide jobs for 700 people.

While the share of profits between BP-Statoil and Azerbaijan is yet to be agreed, Browne told local reporters last week he expected a "very, very hearty majority" of revenues to go to the republic. If both the Amoco and BP deals are successful, Azerbaijan should see its oil output more than tripled to 700,000 barrels a day by the end of the decade.

There will be inevitable setbacks. The day after BP's deal was signed, the managers of Azphonesat, the only private satellite phone operator in Baku which BP had been using for its communications, found their office locked and guarded by police. They were told the local communications ministry had decided it needed to "supervise" communications.

BP officials were unruffled. "It's not a problem. We've coped with much worse than this in Colombia."

Neil Buckley

Corporate citizenship seen rising from the ashes

Tambrands, the US tampon company, is fanatical about the quality of its product. So when Femtech, its Ukrainian subsidiary, found that a shipment of sub-standard cotton had been used, it decided to burn hundreds of cases of affected products.

Most of the 300-strong, mainly female workforce was appalled at such deliberate waste in a country where tampons are in desperately short supply. But the bonfire greatly impressed the local Ministry of Health which saw the blaze as final proof that here was a foreign company that was not prepared to fob off local consumers with inferior products.

Such recognition of good corporate citizenship is valuable in this newly-independent country of 52m inhabitants. Ukraine has approved liberal foreign investment and privatisation laws but is still mainly run by old-style communist apparatchiks. Their ingrained suspicion of capitalism and desire to protect their own vested interests is reflected in an often obstructive approach to foreign companies which thus far have been slow to invest in the republic.

Femtech, which started life in 1988 as a 49 per cent shareholder in a joint venture with the Soviet Pharmaceutical Ministry was the first foreign company to set up in Kiev, the Ukrainian capital.

Since the original decision to invest up to £10m in the venture, liberalisation of the foreign investment legislation has allowed a progressive rise in Tambrands' stake. Femtech is now a 100 per cent owned Tambrands subsidiary.

But much else has changed in the four years since the company took over a half-finished engineering factory in the middle of a muddy field near Kiev's Borispol airport. Ukraine was then part of the Soviet Union and having an all-union ministry as a joint venture partner meant that marketing was taken care of completely. Femtech only had to produce for a virtually limitless market. The men from the ministry distributed it among Soviet pharmacies. At that time, the rouble was also still an all-union currency and inflation, though growing, was still barely into double figures.

Now Femtech operates in hyper-inflationary conditions, pays its workforce in Ukrainian "coupons" and has had to set up its own marketing arrangements in the 15 independent states which have emerged from the old union. Many, like Ukraine and the Baltic states, have either left or are leaving the rouble zone, while the use of dollars and other hard currencies is increasingly widespread. At the same time, unemployment is rising and incomes are widening rapidly.

The bulk of these changes have taken place in the seven months since Tom Collins, a 27-year-old MBA from Boston, arrived as managing director. Another production line has been added to the original two and a fourth is awaiting customs clearance. Once installed, output will rise to around 250m tampons a year, still only around 2 per cent of the potential market.

Through all the changes, Tambrands has stuck to its original business plan. This was to pay roubles for all local inputs and cover unavoidable hard currency imports by exporting finished product to hard currency markets.

Locally-generated rouble profits were used to finance expansion. The first acquisition was made in January when Tambrands bought a cotton bleachery in St Petersburg with profits generated in Kiev. It is now installing two tampon production lines and sending its general manager and other key Russian staff to England for training.

Keeping the workforce happy in hyper-inflationary times is also a tricky business. With official statistics in disarray, Collins relies heavily on his chief accountant, Lilia Osipova, who every month turns out what is probably Ukraine's best report on inflation and local wage conditions.

She sits at her phone and calls her friends in the local factories for their wage rates. She also calls up the local stores and walks round the local markets, preparing a basket of 100 goods from light-bulbs to men's business suits. Armed with this high-grade intelligence, management adjusts wages to keep abreast of inflation.

Productivity and quality at the Kiev plant are up to similar standards as those in Tambrands plants elsewhere. But wage costs are only 2 per cent of total costs in Kiev compared with around 14 per cent at plants in Britain. Now Tambrands is using part of its locally-generated funds to build 104 high-quality apartments for its workforce. The land will be leased for 99 years from the local council but the flats will remain Tambrands' property and it will be able to sell them in future, when the company hopes Ukrainian currency is convertible and profits can be exported in hard currency.

Anthony Robinson

East meets west through an American style of advertising

ARTS

Architecture/Colin Amery

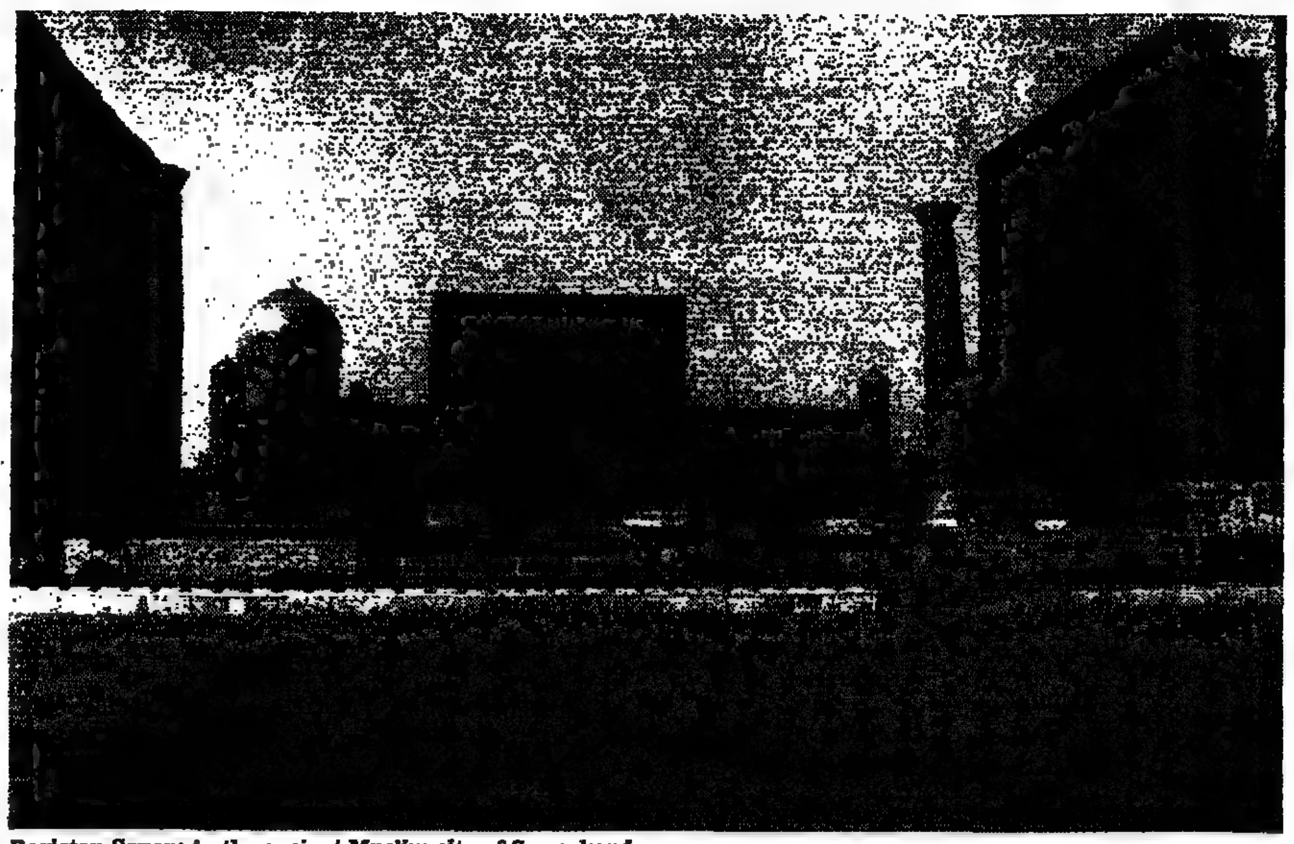
Islamic tradition rewarded

IS there an architectural future? With more than a third of the architectural profession out of work and a Government keener on belt tightening than expansion, the immediate future could well be described as gloomy. Architecture is not like fashion. We are told that skirts get longer when times are bad. Buildings do not get any larger – they just do not get built.

September is a month for looking ahead after the summer break, and this year I can see that there are not going to be so many new buildings to write about. The in-tray is, however, far from empty. There is a lot of cultural activity ahead and I foresee considerable debate about the need for unfashionable things like centralised planning of the infrastructure, the renewal of the housing stock and the development of policies for expansion that will be environmentally safe and appropriately green. In the run-up to the United States presidential election, the democratic candidate is already promising to spend billions of dollars on the collapsing infrastructure of America's cities.

In Japan, the government has decided to spend millions of yen on urban and transport projects. In the United Kingdom, there is a sense of dismay at the failure during the 1980s to secure an alliance between the state and the private sector that really worked. The dreadful shadow of Canary Wharf casts a pall over Mrs Thatcher's efforts to rejuvenate the inner cities. That failure was undoubtedly caused by a refusal to recognise the Government's responsibility for improving infrastructure.

Problems in the building world of the United Kingdom are put into perspective by a glance in the direction of the politically uncertain states of Eastern Europe and the countries of the third world. There is one architectural agency that consistently draws attention to the achievements and problems of architects working in the Muslim world and that is the Aga Khan Award for Architecture. This award is not just a prize, it is a complex and well funded process that began by alerting Islamic countries to the dangers of ignoring their particular architectural legacy during the oil-boom years of the 1970s. The award combines its search for the best architectural achievements with a teaching programme in Islamic architecture at Harvard University and the Massachusetts Institute of Technology and at schools in Pakistan and Jordan.



Registan Square in the ancient Muslim city of Samarkand

It is an immaculately managed award and some of its seminars have been highly constructive, particularly in the field of housing and in the debate about architectural tradition. This year the prize-giving ceremony itself achieves a particular distinction by being held in the newly created independent Republic of Uzbekistan in the ancient Muslim city of Samarkand. From some 259 entries, the international Master Jury has chosen nine projects, ranging from the restoration of the seventh century city of Kairouan in Tunisia to the careful improvement of a squatter settlement in Yogyakarta in Indonesia.

One of the nine entries that exactly matches the aim of the award – "to navigate between the twin dangers of slavishly copying the architecture of the past and of foolishly ignoring its rich legacy" – is the Pan African Institute for Development at Ouagadougou, in Burkina Faso. The campus is modelled on Volta village plans and is built entirely of the local material of stabilised earth brick.

The award tries to encourage architects and builders working in Muslim countries to avoid the anonymity and alienation of much contemporary architecture that is built with no sympathy for its immediate surroundings and no acknowledgement of tradition. The prize funds are generous – some half a million US dollars – and the winners will be announced in Samarkand on September 19.

The Aga Khan Award has not ignored the best contemporary architecture and one of the architects it has commended is the Frenchman Jean Nouvel. He is really famous for one building – L'Institut du Monde Arabe on the banks of the Seine in Paris. This is an amazing marriage between Moorish traditions and high technology. From December 16 he is to be the subject of a exhibition in London at the Institute of Contemporary Arts. His opera house for Lyons and his conference centre in Tours will be included in the show and I am particularly looking forward to seeing his "Tour Sans Fins" the tallest tower in Europe and the slimmest in the world to be built at La Défense in Paris. This has been described as, "emerging from a dark crater it appears to dematerialise as it rises, seeming to soar from the centre of the earth to the skies."

* * *

European architecture is to be featured strongly in the forthcoming BBC television series, "Building Sights Europe" which starts transmission on a weekly basis on Sunday evenings on September 27. The composer Iannis Xenakis and the playwright Vaclav Havel are two of the contributors who select buildings they like. Richard Burdett, who runs the Architecture Foundation in London, chooses the house on Capri built during the Second World War for the Italian writer Curzio Malaparte. It was liked by both Mussolini and Brigitte Bardot...

* * *

The Architecture Foundation exhibition about the City of London "City Changes" is to be extended until October 2 at the Royal Exchange – it is worth seeing if only to compare the recent crop of new buildings in the City with the quality and potential of some of the other cities of Europe.

Alistair Muir

Louis Hilyer (left) and Richard Pascoe

Lyttelton Theatre

An Inspector Calls

Good news from the Royal National Theatre: Stephen Daldry turns out to be quite as effective working on a large stage as he was on a small. Daldry was until recently artistic director at the tiny Gate Theatre in London's Notting Hill and is about to take up a similar post at the Royal Court. He was invited to direct at the National while in transit.

Who would have guessed that he would come up with *An Inspector Calls* to display his talents? J B Priestley's play is an impeccable example of really good middle-brow drama: full of craftsmanship, the odd surprise and several good parts. On the intellectual level, it raises questions without being in the least bit provocative or shocking. It is the sort of stuff of which the Reithian BBC was made. For an audience, it is almost impossible not to sit back and enjoy it.

In other words, this is not what we expect from Daldry, although a programme note reveals that he has directed the play before at the Theatre Royal in York. What he shows at the National is that even a conventional piece can be successfully subjected to his staging techniques.

An Inspector is essentially a dining room thriller with psychological and social insights. The inspector arrives at an engagement party of north country industrialists – the Birlings of Brumley – gradually to uncover all sorts of skeletons in the cupboard. No member of the Birling family has behaved criminally; social responsibility to the unseen girl who is alleged to have committed suicide is another matter.

One way of playing this would be to give the whole stage to the dining room and let the action revolve around the table. Indeed, by all accounts, that is how *An Inspector* was played at its first London production in 1946, starring Ralph Richardson, Alec Guinness and Margaret Leighton.

Daldry has different and better ideas. On a small scale, the entire Birling house is centre stage, but it is the shell from which the family is drawn out rather than where the action takes place. The rest of the stage is a kind of no-man's land. Another house can be seen in the background, a line of lamp-posts stretching towards it. A full-scale red telephone box, quite important to the plot, is in the corner of front stage right.

It is the no-man's land that is dominant and where the inspector pursues his inquiries and, one by one, members of the family admit to past actions that do not bear too close a scrutiny. This is the outside world looking in rather than the family protecting itself behind comfortably closed curtains.

Daldry has made one other change. Although the play was written towards the end of the second world war, it is set towards the beginning of the first. Daldry has switched the action to 1945. I do not think that the change makes a ha'p'orth of significant difference. Priestley's work stands up for any period. But it does allow the use of a crowd scene. From time to time, the Labour voters of 1945 – not all them by any means in cloth caps – silently occupy the stage and, at the end, the Birlings' house.

There is also a *coup de théâtre*. At one stage, the house falls down, dining room and all. Nothing put on by Daldry is ever dull, and as a designer he has Ian MacNeil who worked with him at the Gate.

Kenneth Cranham is the inspector, the role once played by Alec Guinness. As a part, it has grown with time, for nowadays we tend to give more sympathy to the outsider than to the bourgeois family. Cranham plays it perfectly, without undue aggression. The rest of the acting struck me as a bit flat, though I admired Diana Kent as the daughter who sees the political light.

Malcolm Rutherford

In repertory at the Lyttelton Theatre (071 928 2252) until October 20, then touring.

Covent Garden

Tosca

The years pass but the voice does not change. It is difficult to believe that it will soon be 30 years since Luciano Pavarotti made his Covent Garden debut: the beauty and clarity of this tenor voice remain undimmed, as does the musicianship of its owner, however dazzling the spotlight of media attention that is shone on his every appearance these days.

This revival of *Tosca* opened the Royal Opera's 1992/93 season. From time to time the company's still handsome production is asked to recapture the dramatic integrity it had in 1964, when it was new. More often it is merely a showcase for a star, as here. Pavarotti sang in *Tosca* back in 1977, when memory recalls the opera caught fire as drama. This time it did not, although that should not necessarily be taken as the tenor's fault.

In the music of Cavaradossi, Pavarotti sings to the manner born. There is no way that a ringing Italianate tenor sound can be taught. Either it is there by nature or it is not, though Pavarotti has told of the exercises he practised as a student to make his vowel sounds so astonishingly clear. There was perhaps more steel to the tone than usual on Saturday. The phrases in the Act 3 aria where a singer can caress the music remained loud and tightly-controlled. Otherwise the role was most eloquently sung.

The vocal personality gives his Cavaradossi a touch of class, even if the rest of the character is only sketched in. During the lovers' playful banter in the opening scenes, Pavarotti sat at his easel, continuing to dab at his painting with a cheeky grin, while his Tosca, with no more concern for dramatic credibility, addressed the audience and hardly gave him a cursory nod.

As far as she went, Elisabeth Holleque made a workable Tosca. In this company, however, the voice lacked glamour and power. Playing a prima donna, not least in the production created for Callas, demands a singer ready to stamp her personality on the role to a degree this young American artist, for all her virtues, was not. She entered the lion's den in the Farnese Palace looking as though she would be swallowed pretty quickly.

An understandable reaction, perhaps, as Silvano Carroli was playing a voracious Scarpia, his eyes rolling, the power clearly gone to his head. There was coarseness in plenty here, as the voice sounded rough and he shouts too often. But Carroli can utter Italian words in a way that sends shivers of menace down the spine. The small roles were mostly taken by well-known faces, including Eric Garrett's Sacristan, the original from 1964.

In the pit Zubin Mehta obtained the gorgeously lush sounds from the orchestra that he has always found for Puccini in this theatre, although the price was some self-indulgent wallowing at times.

On balance a lesser conductor with a good grasp of the Italian style would probably be preferable. Despite signs that the Royal Opera had other ambitions, this was a star's evening. What Pavarotti was achieving in vocal terms was well ahead of anything else that was going on.

Richard Fairman

Liverpool Everyman

Example

Television and theatre maintain an awkward relationship. Actors often have to choose between a lucrative Soap Opera or a worthy season in Repertory, while theatre producers need stars made bankable by television fame. At a deeper level, the two media can be mutually informing when they treat the same issues.

Here is a documentary play born of documentary television; *Example*, at the Liverpool Everyman Theatre, is a piece of legal history still unfolding.

It was devised by the Belgrade Theatre in Education group in Coventry in 1977, and has now been reshaped by the Merseyside Young People's Theatre Company (director Chris Channing) to tour Merseyside and visit the York Arts Centre.

It is a folk tale of South London. The action recounts the story of Derek Bentley. On January 28, 1953, Bentley was hanged in Wandsworth Prison for the murder, on November 2, 1952, of PC Sidney Miles during a robbery in Croydon. The gun which killed Miles was fired by Bentley's partner, Christopher Craig. At the time the shot was fired, Bentley was unarmed and under arrest.

Craig was 16 and therefore, when found guilty of murder at the Old Bailey on December 11, 1952, his death sentence was commuted to life imprisonment; but Bentley was 19, and was sentenced to hang. He was also an epileptic, had an IQ in the 60s and a mental age of 4.

After the verdict, an appeal (13 January 1953) and representations to the Home Secretary were turned down. On 26 January, a motion for reprieve presented by Sydney Silverman, MP, was removed from the Order Paper on the Speaker's instructions. No commutation came from the Home Secretary, and Bentley hanged.

Several books have taken up the case. David Yallop's *To Encourage The Others* (1972) and M.J. Trow's *"Let Him Have It, Chris"*, (what Bentley is said to have shouted, meaning either "Kill him" or "Give him the gun") along with a *Thames Reports* documentary (1990, director. Roger Corke) have brought fresh evidence, augmented by Craig's new contribution and an *Observer* piece in September 1991, to suggest that Bentley was wrongfully hanged. A petition, signed by 205 MPs, for Bentley's pardon was submitted to the Home Secretary in June this year.

A play is not a case, nor a theatre a courtroom. *Example* presents the emotional argument for Bentley's relative innocence: he was involved in an armed robbery, but he did not commit the murder. But Elvis Costello's viciously ironic song, "Let Him Dangle" puts a better *ad hominem* case.

The legal profession and the police fare badly here, the former seen as self-serving snobs and the latter as callous liars. But if this is to be more than – justly in this instance – an anti- authority drama, the publicity material for schools should be clearer about the issues. A look at changing practices in the United States should highlight the position of convicted murderers under 18 who are, as Bentley was, mentally subnormal. In some States, they face death by electrocution.

Andrew St George

Example, Everyman Theatre throughout September, October and November (051 708 0877)

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

Concertgebouw 20.15 Tadaaki Otaka conducts BBC Welsh Symphony Orchestra in works by Rakhmaninov and Wagner, with Gwyneth Jones. Tomorrow and Thurs: Borodin Quartet. Wed: Ton Koopman plays Telemann. Fri: Hartmut Haenchen conducts Mahler's Seventh Symphony. Sat: Valery Gergiev conducts Netherlands Radio Philharmonic (6718 345). Tomorrow in Beurs van Berlage: Julian Reynolds conducts Sweelinck Conservatory Orchestra (6270 466)
Muziektheater 20.00 Hartmut Haenchen conducts Stephen Pimlott's production of Samson et Dalila, with William Cochran and Catherine Keen. Runs till Sep 26, with next performances on Thurs and Sun afternoon. Tomorrow, Wed, Fri, Sat: Dutch National Ballet mixed bill (6255 455)

■ ATHENS

ATHENS FESTIVAL
Odeon of Herodes Atticus 20.30 Glinka Choir of St Petersburg in Rakhmaninov's Vespers. Wed: concert marking 15th anniversary of death of Maria Callas. Thurs: State Orchestra of Salonica. Fri: Diego Masson conducts works by Ianis Xenakis and others. Sun and next Mon: Monte Carlo Ballet. The festival runs till Oct 5 (322 1459)

■ BERLIN

CONCERTS
Philharmonie Carlo Maria Giulini conducts the Berlin Philharmonic Orchestra in Verdi's Requiem tonight. Tomorrow: Rafael Frühbeck de Burgos conducts the Orchestra of the Deutsche Oper in works by Beethoven and Stravinsky. Fri: Libor Pesek conducts Chamber Orchestra of Europe. Sat evening and Sun morning: Riccardo Muti conducts Berlin Philharmonic in works by Mozart and Dvořák. Sun evening and next Mon: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra (2548 8232).
Schauspielhaus Sian Edwards conducts tomorrow's concert by the Junge Deutsche Philharmonie, with works by Janacek, Varèse and Stravinsky. Thurs, Fri, Sat: Berlin Symphony Orchestra celebrates the 80th birthday of the conductor Kurt Sanderling (2090 2156). Edwards also conducts a Frank Zappa concert tonight at the Hochschule der Künste (2548 9250)
OPERA
Gwyneth Jones sings the title role in Tosca on Thurs and Sat at the Deutsche Oper, and also in Elektra on Sep 22 and 26 (3410 249). The Staatsoper unter den Linden has a Carl Orff double bill on Wed, Madama Butterfly on Thurs, Die Zauberflöte on Fri and Sleeping Beauty on Sat and next Mon. Tiziana Fabbricini sings the title role in La traviata on Sun (2004 762). The Komische Oper has Cosı fan tutte on Fri and La bohème on Sat, plus a new production of Rienzi on Sep 25 (2292 555)
THEATRE
The Schaubühne has Marguerite Duras' play The Sickness of Death directed by Bob Wilson, on Fri, Sat and Sun. The Schaubühne production of Maxim Gorki's social drama The Lower Depths can be seen at the Freie Volksbühne tomorrow and Wed (890023). Tonight and tomorrow, Divadlo Na Zabradli theatre company from Prague presents a play by Oleg Yuriev at the Hebbel Theater (2548 9250). The Maxim Gorki Studiobühne has a new production of Rainer Werner Fassbinder's 1971 play Die bitteren Tränen von Petra von Kant, with Swetlana Schönfeld in the title role (2082 783).

■ COLOGNE

CONCERTS
Michael Tilson Thomas conducts the London Symphony Orchestra in tonight's concert at the Philharmonie, with violin soloist Viktoria Mullova (repeated tomorrow in Frankfurt, Wed in Brussels, Sat in Munich). Tomorrow: Christa Ludwig sings Winterreise. Wed: Sian Edwards conducts the Junge Deutsche Philharmonie in works by Schnittke, Varèse and Frank Zappa. Thurs: Gianluigi Gelmetti conducts the Stuttgart Radio Symphony Orchestra in works by Webern, Beethoven and Hindemith. Sat: Arturo Tamayo conducts a John Cage programme. Sep 24: André Previn conducts the Vienna Philharmonic (2801)
OPERA
The 1992-3 Cologne Opera season begins on Sun with a new production of Macbeth conducted by James Conlon, with Elizabeth Connell and Franz Grundheber (six performances till Oct 9). Pelléas et Mélisande, also conducted by Conlon, returns to the repertory on Sep 26 (221 8400)
THEATRE
The Schauspielhaus repertory includes Dürrenmatt's The Visit, Strindberg's Dance of Death and Edward Albee's Who's Afraid of Virginia Woolf. The Kammerspiele has Samuel Beckett's play Krapp's Last Tape and George Tabori's Jubiläum. A new production of Edward Bond's Saved opens at the Schlosserei on Sep 30 (221 8400)

■ NEW YORK

The Chamber Music Society of Lincoln Center tonight pays tribute to Alice Tully on her 90th birthday with a concert in Alice Tully Hall entitled A Toast to Miss Tully. Among the artists appearing will be Isaac Stern, André Previn, Yo Yo Ma and Dawn Upshaw (875 5787). This week's City Opera repertory includes a revival of Romberg's operetta The Desert Song tomorrow and Frank Corsaro's new production of Busoni's Dr Faust on Thurs (870 5570). The New York Philharmonic's 1992-3 season begins on Wed with a gala concert conducted by Kurt Masur. Masur also conducts a Beethoven, Mehul and Schubert programme on Thurs, Fri and Sat (875 5030)

■ PARIS

MUSIC
Tomorrow at 20.30 in the Grand Auditorium de Radio France, Marek Janowski conducts the Orchestre Philharmonique de Radio France in Lutoslawski's Concerto for Orchestra and Messiaen's Turangalila Symphony. Charles Dutoit and the Orchestre National de France play two programmes this week at Salle Pleyel: works by Bartók, Prokofiev, Debussy and Ravel on Thurs, Honegger's Jeanne d'Arc au bûcher on Fri (4230 3630). The Opéra Bastille season begins on Sep 24 with Le nozze di Figaro (4473 1300). The Châtelet has a new production of Evgeny Onegin opening on Sep 28 (4028 2840)
THEATRE
Mediterrania, a Catalonian theatre piece performed by Els Comediants, opens the Odéon-Théâtre de l'Europe's Spanish season on Wed, and runs till Oct 18 (4441 3636). The three-month Festival d'Automne à Paris gets under way this week with Chekhov's Cherry Orchard at the Théâtre de Gennevilliers, directed by Stéphane Braunschweig (4793 2630). Full festival programme from 156 rue de Rivoli (4296 1227)

■ VIENNA

OPERA
Tonight's performance in the Staatsoper is Andrea Chenier, with Katia Ricciarelli, Luis Lima and Renato Bruson (also Thurs). Tomorrow and Fri: Madama Butterfly. Wed and Sat: Lucia di Lammermoor with Gruberova. Sun: Die Entführung aus dem Serail. The Volksoper has a Zemlinsky double bill tomorrow, Evgeny Onegin on Wed and Die Zauberflöte on Fri (51444 2960)
CONCERTS
A Week of English Music opens on Sun with a concert by the Academy of Ancient Music conducted by Christopher Hogwood at the Konzerthaus (712 1211). The LSO conducted by Michael Tilson Thomas can be heard at the Musikverein next Mon, followed by the Consort of Musicke under Anthony Rooley next Tues and the Hallé Orchestra on Sep 26 and 27 (505 8190)

THEATRE
Eugene O'Neill's play A Moon for the Misbegotten is running daily except Sun at Vienna's English Theatre, Josefsgasse 12 (402 1260). This week's repertory at the Burgtheater and Akademietheater includes Waiting for Godot, Dürrenmatt's The Visit and the world premiere of a new play by Elfriede Jelinek (51444 2218)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Monday September 14 1992

Uncle Sam tries it on

FOR A country that suffers from a conspicuous shortage of savings and an endemically weak current account, the US is oddly cavalier in its treatment of the providers of foreign capital. Once again the US subsidiaries of foreign multinationals are being called on to make a bigger contribution to the US fiscal pot. As in the earlier battle over unitary taxes in the mid-1980s, the international business community is justifiably enraged at the manner in which the US is going about the job.

The chief bone of contention is the tax treatment of transfer prices at which goods are shunted across national boundaries within the same group of companies. In February the US Internal Revenue Service abandoned the internationally accepted approach whereby transfer prices – a chargeable cost against taxable profit – were judged in accordance with the arm's length principle. It decided instead to measure foreign-owned companies' profit by reference to average profits in comparable domestic businesses.

This approach could now be given a legal basis as a result of a bill sponsored by Mr Dan Rostenkowski, chairman of the House Ways and Means Committee, and Mr Bill Gradison. Under the proposed legislation taxpayers who have not already negotiated an agreement with the IRS on transfer pricing would be required to obtain their own information about the average profits of comparable businesses and to pay tax on that basis, rather than on the basis of their own disclosed profits. For good measure the bill seeks to introduce capital gains tax on the disposal of shares by foreign owners of US companies – a measure that was dumped from the 1989 Budget Reconciliation Act after clamorous international protest. Meanwhile, Democratic presidential nominee Mr Bill Clinton proposes to raise substantial revenues with his own assault on transfer pricing.

It is not inconceivable that there is widespread abuse in the US over transfer pricing. Certainly studies have tended to show that the level of profitability in foreign owned companies has been significantly lower than in domestically owned business. Yet it would be surprising if this were not so. For much of the 1980s foreign direct investment into the US was growing at more than 20 per cent a year. The profitability of the total stock of foreign investment would thus have been heavily influenced by start-up costs and the desire to invest in building market share. At the same time the returns on the more aged stock of domestic assets would have been overstated, relatively, through the impact of the historic cost accounting convention on depreciation.

Nor is there any evidence that the US is a bigger loser from transfer pricing abuses than, say, Britain, Germany or France. But that, of course, misses the point, since the US is not chiefly concerned to address the question of international tax avoidance. Mr Clinton, as with Mr Bush, is simply anxious to seize any opportunity to raise revenue by the backdoor.

At the same time the Rostenkowski-Gradison bill is just one more instance of the national paranoia about Japan and the associated urge to bite the hand that provided the lion's share of the $1,000bn of foreign capital that the US has imported since 1980.

As with the Structural Impediments Initiative, the US is seeking to have it both ways. But this time, as well as violating tax treaty obligations, the proposed legislation catches Europe in the cross-fire. European governments can be relied on to lobby fiercely to mitigate the damage.

There is a clear need for the issue of transfer pricing to be addressed at international level. To that end the OECD has already set up a task force which will provide the data for a properly informed debate. In the meantime US multinationals would do well to remind their friends in Washington that the European response to the unitary tax wrangle was to introduce legislation to permit retaliation. With so much at stake on both sides it would make no sense to proceed with such an arbitrary approach to the taxation of the profits of foreign companies in the US.

Angola's poll

THE VISION of a stable and thriving post-apartheid southern Africa is being tested in Angola, and the outcome is in the balance. Can the ruling MPLA and its main challenger, Unita, settle their differences through the ballot box at the end of this month, or will old enmities prevail?

The stakes are high. A successful transition to democracy will help unlock the potential of one of Africa's most richly endowed countries, which in association with South Africa could provide the economic boost the region badly needs. Pretoria is Luanda's natural trading partner, notwithstanding the irony that Angola's oil - over 500,000 barrels a day - will be paying for the rehabilitation of an economy that South Africa helped destroy.

Failure will not only destroy this vision and dash hopes for the recovery of a country battered by a 16-year civil war. The consequences of an unstable Angola permeate the region, whether as refugees, traffic in arms or the continued closure of the Benguela railway, once the main outlet to the sea for Zaire and Zambia.

The omens are mixed as the country enters the last phase of a process which began with a UN monitored ceasefire 16 months ago. Banditry by demobilised soldiers, unrest in the oil enclave of Cabinda, and increasing tension between the two armies all threaten a fragile peace.

An encouraging development was last week's news that both President Jose Eduardo dos Santos and Mr Jonas Savimbi, the Unita leader, intend to form broad based administrations irrespective of their margin of victory.

But this assurance may not be enough to contain tensions that could derail a process that has been flawed from the start.

It has always been apparent that the UN mission was given inadequate resources for its task of monitoring the ceasefire and the demobilisation of two rival armies, and deciding whether the elections are free and fair.

In contrast with the UN role during Namibia's transition to independence, it does not have to organise the poll. But the contrast between the Namibian operation, with 6,000 UN personnel in a country with a good infrastructure and only 1m people, and what is expected from a 600-strong UN team in a country shattered by war and with 10m citizens, is a sorry one.

The difficulties are compounded by Angola's weak bureaucracy and mutual distrust between MPLA and Unita, which has left vital features of the transition behind schedule. Demobilisation of the two armies is incomplete, as is the creation of a new national army.

Nor is it certain that the government can arrange the efficient distribution and collection of ballot boxes, any more than that the UN team has the resources with which to make a definitive pronouncement on the exercise. Angola's hazardous transition may well succeed, but it will be due as much to good fortune as good judgment.

Insider alarms

THE CITY of London is deeply troubled by proposed new legislation on insider dealing, and it is easy to see why. The present law is discredited. Marked share price movements in front of important company announcements are commonplace; successful prosecutions are rare. The idea now is that the scope of legislation should be widened, in ways that will significantly increase the numbers of people who qualify as insiders.

The law needs to pass two conflicting tests. It has to provide definitions of wrongdoing that can successfully be prosecuted. And it has to do this without damaging the interests of those who are trying to conduct legitimate business. The present law fails the first test, since proving that someone has knowingly been trading as an insider turns out to be extremely difficult. The new proposals could well fail the second test, by effectively defining as inside information almost anything that anyone could possibly want to know.

There are real risks that this approach could check the flow of information between companies and investors in a way that would damage the interests of the capital markets. Company directors already have enough difficulty in briefing investors about changing business conditions. The new law could make this worse.

It is unrealistic to legislate for a market in which all participants have equal access to information. Better instead to aim more modestly for an environment in which those who abuse positions of trust are punished, and companies are encouraged to be as open as possible about their affairs. The government needs to go carefully.

The French referendum is prompting EC officials to revise long-held assumptions about the Community, says **Lionel Barber**

Brussels balloon flies into danger

Doubt is a rare commodity among the politicians and bureaucrats who run the European Community in Brussels. Cocooned in a world of grand designs and logical structures, they normally project a smooth self-confidence about the role of the EC at the centre of Europe.

With the French referendum on the Maastricht treaty just six days away, this confidence has been punctured. Whatever the outcome on Sunday, there is a realisation among Eurocrats that they can no longer assume that the development of the Community is an historic inevitability.

The national debate in France on Maastricht has been sobering for the entire Community. For the first time since the Treaty of Rome in 1957, the French, the traditional driving force behind European integration, have held a debate on Europe – and it has been conducted on national terms.

Both supporters and opponents of the treaty have invoked the fear of German hegemony to buttress their campaign, while President François Mitterrand's statement that France would not support majority decisions by the Twelve on important matters of foreign policy could have come straight out of the mouth of Mrs Margaret Thatcher.

The French have rediscovered the allure of national sovereignty. This Gaullist tendency was detectable in the closing phase of negotiations on Maastricht last December when France pushed to vest more power in the Council of Ministers, and it has grown. Last week Mr Mitterrand chose to emphasise that the independent professionals who would run the European Central Bank would be subject to the control of elected politicians in the European Council. "Either he dared not tell the French the truth," says one EC observer, "or he simply distorted the treaty."

From Brussels' viewpoint, second French thoughts about Eurofederalism are troubling. The shift coincides with evidence in other European countries – Britain, Denmark, and most ominously, Germany – that popular enthusiasm for Maastricht's path to political and monetary union, never strong, is weakening. The Danish vote in June against Maastricht no longer looks like an aberration. "If there was a referendum in Germany tomorrow," says one EC official, "it would fail."

How has this sudden burst of Euroscepticism come about? One explanation is public ignorance: the dense 250-page text is about as readable as a London bus timetable. Even supporters of closer integration worry about this. Mr Jacques Delors, who has threatened to resign as European Commission president if Maastricht is rejected, constantly complains about the design of the treaty while on the campaign trail in his native France.

A senior EC official describes the shock experienced in Brussels when a spate of public opinion polls showed a majority in France against Maastricht. It was, he says, as if the heads of government and civil servants responsible for Maastricht had existed in a space bubble, too remote to gauge the true sentiments of the people.

Coming down to earth has been a bruising experience. It has forced officials and ministers to focus on the possibility of a French rejection. The great fear is that the dynamic development of the Community will dissipate as governments become paralysed by uncertainty about the EC's future. Important, pressing issues such as a resolution of the Uruguay Round trade talks will be even more difficult to agree.

Mr Delors launched the plan for monetary union with meticulous preparation, but Chancellor Helmut Kohl and President Mitterrand added on the ill-defined political union in response to the unforeseen collapse of the Soviet empire and the resulting unification of Germany. Five years of steady economic growth and the success of the single market project (1992) was enough to persuade the true believers that the gamble could be pulled off; but the costs of German unification – coupled with the economic slowdown on the Continent – have made the enterprise appear much more fragile.

The immediate impact of a French No would be in the financial markets. Speculators may be underestimating the determination of European central banks and their governments to maintain the parity grid inside the exchange rate mechanism (ERM). Yet the threat of a further increase in European interest rates caused by the Bundesbank's tight monetary policy – and the weak dollar – leave a big question mark over the commitment of weaker members to the ERM such as Italy. French rejection, says one senior EC observer, would mean that "the timetable for a single European currency by the end of the century is dead".

A French No would make the horse-trading among the Twelve, which lies at the heart of the EC process, infinitely more complex. The Delors II package, which would funnel billions to the poorer southern member states to bring their living standards closer to those of the richer northern countries, would be impossible to attain. The EC's plans for enlargement would also risk being delayed.

Second, Maastricht's plans for "political union" linked to a common European foreign policy would appear even more remote. So too, the tentative vision of a common European defence. Countries such as Britain, which regard the Nato alliance as the primary political and military organisation in Europe, already find such a defence policy hard to swallow.

Yet the show would go on, albeit on a different course. Member states would still continue the process of wider European co-operation. The consequences of the single European market – the project which provides for the free movement of goods, services, capital and people by the end of this year – make this inevitable. The question is whether a weak EC would have the energy to address neglected areas such as law enforcement and immigration. Both these areas are assuming greater urgency in view of the continuing refugee exodus from eastern Europe, so vividly demonstrated by the Rostock riots.

A Yes vote in France would not resolve a broader question: Will the EC be able to absorb the lessons provided by the French referendum and the ratification process?

Much of the opposition to Maastricht is driven by fears about the consequences of the internal market. In France, for example, farmers may vote against Maastricht because they are angry over Common Agricultural Policy, which reduces their financial aid. But in the coming months and years, as the single market starts to embrace previously protected national businesses such as telecommunications and public procurement, the scope for conflict rises exponentially.

Arguments about economic and monetary union (Emu) are inevitable. Maastricht's basic monetary compromise – German agreement to give up the D-Mark in return for an independent central bank – looks precarious. Fears in Germany that the Twelve will try to dilute the strict convergence criteria required for Emu are understandable. Even if Chancellor Kohl's coalition government secures ratification in the Bundestag and Bundesrat this year, both chambers are now demanding the right to hold a "vote of approval" before the EC can move to the final stage of Emu.

The invocation of national German interest is viewed with sympathy in Brussels. It underlines the present trend in Europe: an increase in the assertiveness of national parliaments as the realisation dawns about Maastricht's impact on national sovereignty.

In Britain, where the House of Commons has long debated the pros and cons of Europe, if not the fine detail of EC legislation, this assertiveness is viewed as healthy. In France and Germany, where national legislatures took EC membership for granted as part of their country's post-second world war rapprochement, it is a new phenomenon. And it demands a response, according to Brussels officials.

Their answer is subsidiarity – the notion that the EC should exercise restraint in its application of Community law and devolve power to members. Mr Delors, often caricatured a power-grabbing centralist, has been pushing for devolved power as far back as 1988. The problem is that in the absence of concrete proposals few bureaucrats, particularly in the European Commission, have paid much attention.

The result is a crisis of confidence in the Commission. Eurocrats complain they have become a convenient flogging horse for politicians in the European Council who wish to duck responsibility for unpopular decisions. They argue, correctly, that the European Council – not the Commission – is the big winner at Maastricht through the increased role for intergovernmental co-operation outside of Community law.

Mr Major, Mr Mitterrand and Mr Delors have all made this point in the past fortnight. Yet few have drawn the consequences. However, technocratic and undemocratic the Commission may be, it pales by comparison with the smoke-filled rooms in the Council. For the Council is not subject to serious scrutiny either by the European Parliament, which has failed to establish broad legitimacy, or the national legislatures which have for the most part ignored European affairs.

How to make the Council and the Commission more accountable is one of the great tests of the coming decade, says a senior EC official. It will become even more important, should the EC proceed as expected with the admission of new members, starting with Austria, Finland, Sweden and Switzerland before the end of the century. Institutional reform, including the reduction in the number of EC commissioners and the vexed question of more majority voting, seems inevitable.

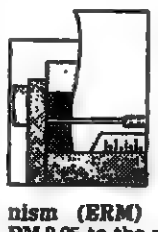
But for the moment all eyes are on the French, and the Danes. It is far from clear that a French Yes can salvage a treaty which remains hobbled by the Danish vote and which requires unanimity to have the force of law. No one is sure in Brussels how the Danish question can be finessed. Most bets centre on a separate code of conduct on subsidiarity added to the treaty which could be put to a second referendum next year. But the timing is highly sensitive since a French Yes would increase pressure on the Danes to take or leave Maastricht.

If Maastricht fails, the EC will be a far weaker, less reliable, partner for the US and other allies – a throwback to the 1970s when member states could not even agree on a common response to the oil crisis. With momentous events unfolding outside the EC's frontiers in Yugoslavia, eastern Europe and the former Soviet Union, this is a distinctly uncomfortable prospect.

PERSONAL VIEW

Crunch for sterling

By John Muellbauer



It is increasingly apparent that the emperors of UK economic policy have no clothes. The commitment to keep sterling within an exchange rate mechanism (ERM) band centred on DM 2.95 to the pound is unsustainable. The UK joined the ERM at a rate which observers at the Bundesbank at the time regarded as overvalued by between 10 and 15 per cent. They were right.

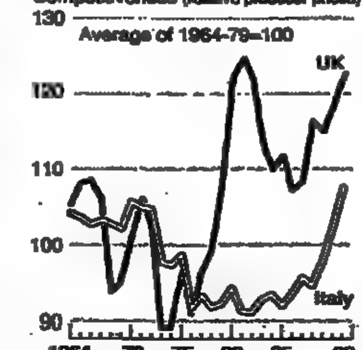
There are at least four arguments for sterling's realignment.

- Various indices of competitiveness suggest the pound is overvalued;
- the traded goods sector's reduced capacity;
- the trade deficit;
- and depleted net foreign assets.

On measures of manufacturing competitiveness, the graph shows UK relative producer prices from 1964 to 1991; the comparison with Italy is pertinent because the lira is widely seen as overvalued. Some observers ignore the evidence for the period before 1980 to argue that the UK was more competitive in 1991 than in 1981. In fact, since 1979 (apart from a brief episode in 1986-87), UK competitiveness has been substantially worse than in the previous 15 years.

The second argument concerns production capacity. Here the comparison with Italy is instructive. Compared with the UK, Italy enjoyed a relatively stable and favourable competitive position between 1977 and 1988. The effect of improved competitiveness on output and capacity in Italy is illustrated by the 37 per cent rise in manufacturing output in 1979-89; in Britain manufacturing output rose by 11 per cent over the same period.

Manufacturing malaise



Sources: UK: Economic Trends, (1991 partly est.) Italy: IMF Financial Statistics, (1991 partly est.)

The loss of capacity and job skills which is now occurring will raise inflation when demand eventually improves. Econometric models, including the Treasury's, omit this effect. Thus, such models take no account of the ways a devaluation could in current circumstances raise output permanently and cut inflation in the long run.

The third argument is that in spite of weak domestic demand stemming from the consumer "debt trap", the highest real interest rates on record and falling real income and wealth, Britain imports more than it can sell abroad.

Fourth, half a decade of trade deficits have run down Britain's international wealth and its ability to finance further deficits.

UK competitiveness in 1991 was about 20 per cent worse than the 1964-79 average. However, this does not imply that a 20 per cent fall in the sterling index is required.

This is because, first, the temporary undervaluation of the dollar will begin to correct itself when European interest rates fall; and second, because the UK now has bigger net exports of oil and gas than in 1964-79, though this is declining compared with the 1980s.

On balance, sterling needs to fall to between DM 2.4 and DM 2.5 – the biggest realignment in ERM history. This would translate into a 10 to12 per cent fall in the trade-weighted index depending on any currency realignment by Italy and Spain. Three years on, this is likely to leave UK prices 2½ to 3 per cent higher than they would have been. This, in turn, would add less than 2 per cent to inflation in any year which, given the declining trend in inflation, is tolerable.

For the UK the inflationary risks are minimal. Indeed the lack of credibility of government policy is partly due to the ferocity of the deflationary forces now operating.

UK government credibility demands that any sterling realignment be large enough to make negligible the risk of a further early devaluation of the pound. My proposal for sterling's realignment meets this requirement. Credibility is likely to be enhanced by moving to the narrow band at the new exchange rate. Other steps such as increasing the Bank of England's independence and *not* extending mortgage interest tax relief would also help.

The Italian lira also needs to fall against the D-Mark. Italy is not far behind the UK in breaking the inflationary round but needs more teeth in the emergency powers its new government is seeking to make a devaluation successful.

For both the UK and Italy, a realignment within the ERM is safer than floating their currencies, as the recent Scandinavian experience shows.

The author is a fellow in economics, Nuffield College, Oxford.

Quest for plugs to fill City's leaky sieve

A law on UK insider dealing is soon to be introduced. Richard Waters and Robert Peston ask whether it will catch all offenders

Sometimes it seems as though the City leaks price-sensitive information like a sieve.

Two marketmakers overhear a conversation on their banks' trading floor that Grand Metropolitan, a leisure group, is about to make a bid. A secretary at the Office of Fair Trading learns of several bids about to be referred to the Monopolies and Mergers Commission. A young banker hears from a colleague that there is about to be a bid for Pleasurama, a leisure group.

These are all cases that have led to insider dealing prosecutions in the past two years. In each, the defendants were acquitted of trying to profit from their inside knowledge.

The British government is about to try again to plug the holes in the sieve. An EC directive will make insider dealing a criminal act in all Community countries for the first time. This has prompted Mr Anthony Nelson, the treasury minister who recently took over responsibility for City regulation, to introduce into parliament in October new insider dealing legislation as part of the Criminal Justice Act.

The thrust of the Treasury's changes is to broaden the scope of what constitutes insider dealing. At present, it applies only to trading a particular company's securities on the basis of unpublished price-sensitive information about that company. The information also has to come from someone closely connected to the company (a "primary insider").

The scope will be widened in several important ways. First, the law will apply not only to company securities. Trading in the gilt market on the basis of confidential market-moving news would also be caught. Such trading is alleged to have happened 10 days ago, shortly before the British government announced extensive moves to shore up sterling. However, the law will still not cover the foreign exchange markets, or dealings that are made outside what it calls a "regulated market".

Second, all information that affects a company's share price will be covered, not just information about the company itself. So information about a company's competitor or information about an industry could be inside information. In addition, the need for a "primary insider" will disappear. That should make it easier to prosecute City advisers who learn of price-sensitive news through others they work with, rather than directly from a company.

Finally, the new law makes it illegal for the possessor of


Nelson, left: trying to reduce the number of acquittals. Collier, right: pleaded guilty

inside information to encourage someone else to deal in shares, even if that person is not told the inside information.

This proposed widening of the act has caused consternation in the City. At the end of July the government took the unusual step for primary legislation of circulating a draft of the new law to interested organisations, including the British Merchant Banking Association, the Securities and Futures Association and the Stock Exchange.

Nonetheless, regulators, market authorities and brokers are worried that far-reaching changes are being rushed into law without a full assessment of their impact. The City is concerned that the law will interfere with its proper function of helping to get important information out to investors and the public at large.

If, as planned, the act catches any information that may affect a company's prospects that has not already been "made public" (another broad phrase in the proposed law), brokers' analysts could find themselves treading a minefield. The BMBA has been concerned that the law might define as inside information even those conclusions drawn from publicly available information. However, the Treasury has taken great pains to ensure that analysts' research based on such information will not be caught by the act.

On the other hand, almost all conversations with companies will probably put the analyst in possession of inside information, because the definition of inside information has been broadened so much.

Almost all conversations with companies will probably put the analyst in possession of inside information

In reality, the law may not have such a big effect on analysts. Their relations with companies are already governed by the existing legislation. If companies seek to influence their share prices through a series of nods and winks to analysts, then in theory that is already covered by the act – although no prosecutions have been attempted.

Analysts may actually find themselves less open to prosecution in some cases. As required by EC legislation, the new UK law will apply only to information that is "precise". So if a finance director nudges an analyst to alter his or her conclusions about a company's trading prospects, without actually giving out hard information, it would be more difficult to mount a prosecution.

However, the Treasury does not believe that analysts will escape lightly. It says that the word "precise" refers to information with a direct provable relationship to share price movements, such as guidance on a company's profits, as opposed to "general" information, such as inflation or trade figures which have a less easily demonstrable effect on share prices.

In general, the proposed changes may bring more deals into the scope of insider dealing. However, they may give the authorities only marginal help in achieving a higher success rate in their prosecutions.

In 28 insider dealing trials over the past 11 years, almost half the defendants have been acquitted. Of those who have been convicted, more than half pleaded guilty – including Mr Geoffrey Collier, the Morgan Grenfell director convicted in 1987 and the biggest City figure caught by investigators.

The need to prove "intention" in insider cases is a great problem. Cases have often collapsed because of the difficulty of proving beyond any reasonable doubt that someone dealt in securities precisely because he or she was in possession of inside information. In other words, proving that someone has been "knowingly" dealing as an insider has been difficult.

However the new law should help prosecutions in that it puts the onus on the defence to prove that any dealing was not prompted by inside information – rather than on the prosecution to prove that it was, as at present.

The weakness of the prosecution record has in recent years prompted calls both from the City, in the shape of the Securities and Futures Authority and the London Stock Exchange, and Westminster (the trade and industry select committee) for an overhaul of the way insider dealing is investigated and prosecuted.

There have been suggestions that investigators should be given greater powers, that a new body should be created to centralise the fragmented investigatory system, and that additional civil sanctions should be introduced for cases where a criminal prosecution seems unlikely to succeed.

By rushing through the changes this autumn, the Treasury may have pre-empted discussion. A chance to plug more holes in the sieve may have been missed.

OBSERVER

Best-seller in exile

■ Forget Terry Smith, the sacked head of research at UBS *Philips & Drew* and his book Accounting for Growth. When it comes to publishing runaway financial best-sellers, Peter Tasker can show Smith a clean pair of heels any day.

The head of research at Kleinwort Benson's Tokyo office is already on to his third successful book (written in Japanese, to boot), and without a cross word from his employers – so far, anyway.

Having spent the last 10 of his 36 years in Tokyo, he has won the rare distinction of getting both a novel and a serious non-fiction work in the Japanese best-seller list within 12 months of one another. Sales of his End of the Japanese Golden Era have topped 80,000 copies, and his first novel Silent Thunder has sold 35,000 and is now being published in English.

As financial-thriller writers go, he places himself somewhere between new life peer Jeffrey Archer and Paul Erdman. He says he's more serious than the noble lord, but not quite so well qualified as Erdman, who penned his first work in a Swiss jail after trying to corner the world cocoa market for a Californian bank.

Like most money-mystery spinners, Tasker draws heavily on real life models for his characters. For instance, Silent Thunder features a big securities firm which gets up to much hanky-panky, a Japanese prime minister who is deposed by right-wing radicals, and a Japan-bashing American senator with his eye on the US presidency. There is also plenty of sex, and no lack of MOF officials getting "rubbed out".

The story, however, also has its serious side – the radicalisation of trade frictions between Japan and its trading partners. "It is something that could happen," Tasker warns.

He should know. He is ranked as the number one strategist by Japanese institutions.

Civilising

■ The task of getting Britain's public services better managed is clearly being taken seriously by William Waldegrave, as witness his importing of business psychologist John Nicholson as a special adviser.

Besides producing numerous publications including the BBC book How do you manage?, he is chairman of the John Nicholson Associates consultancy which has advised such blue chip clients as Mercedes-Benz, IBM and Hitachi on customer-service initiatives. His speciality is on changing attitudes in organisations to make their culture more user-friendly, rather than just "sticking spears up people's backsides".

A former academic, Nicholson almost became a rock musician after graduating from Oxford. His group was called The Blue Monks and Their Dirty Habits. He also played the piano for the Balliol Players in a spoof of an Aristophanes-style comedy in which Chris Patten, now our man in Hong Kong, played Queen Victoria.

All useful early training, no doubt, for his objective of helping "civil servants behave in a civil way".

Absent friends

■ Where will you be on the day French voters decide Europe's future? If you follow the example of the community's ruling élite, you will be at least 3,000 miles away.

"I'd like to bet on who's going to walk out of judging the Booker prize"

The twelve's finance ministers and central bankers – expected to calm the chaos on the financial markets if the French deliver a Gaullist snub to Maastricht – will be in Washington for the IMF's annual jamboree.

The pals from the EC's foreign ministries will be just up the road in New York attending the general assembly of the United Nations when the votes are counted on September 20.

Presumably they'll be able to spare a few moments from the cocktails to assure us that Europe is safe in their hands.

Welsh squabbles

■ What a way to run a water board! Welsh Water, which has been frightening its smaller privatised rival, South Wales Electricity, by taking a hostile 15 per cent stake and making nasty noises, has sprung an embarrassing leak.

Welsh Water is expected to announce soon a co-operation deal with Manweb whereby it shares some of Manweb's depots in north Wales. It makes sound commercial sense and Welsh Water says in a leaked briefing note that it is disappointed that much larger savings remain unexplored in south Wales.

Unfortunately, Welsh Water mistakenly faxed a draft of the proposed press release to South Wales Electricity, which indignantly ripostes that it has always been happy to co-operate on such deals. The problem is that Welsh Water has never suggested it.

Brave words

■ Connoisseurs of political whistling in the dark may care to compare the Finnish president's statement after last week's flotation of the markka with two classic British examples of former times.

"My conviction is that our currency is not fundamentally overvalued and that there is a real possibility that when more transactions are made, when exporters and importers meet, the level of the exchange rate will be substantially lower (meaning a stronger markka) than the level of those very few and non-representative transactions that have got much publicity." President Mauno Koivisto, as reported by Reuter, September 8 1992.

"That doesn't mean, of course, that the pound here in Britain – in your pocket or purse or in your bank – has been devalued." Prime Minister Harold Wilson, November 19 1967.

"We have had great losses in equipment, but our men have gained immeasurably in experience of warfare." War Minister Anthony Eden, commenting on the Dunkirk evacuation, June 2 1940.

Dead end job

If you're feeling a bit slow after the weekend, Guy's Hospital in London has advertised for a "deceased records clerk".

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Image, not city, is tarnished

From Mr William Davis.

Sir, In your editorial, "Tired of life" (September 11), you state that in the BTA's annual report I "trotted out the usual complaints about a litter-strewn, tired and tarnished city".

This was not my complaint. My comments referred to London's image, which I said "regrettably, has become more than a little tired, even tarnished, in recent years" and announced a major campaign which seeks to put this right.

It is the BTA's job to promote Britain in overseas markets and we naturally do all we can to present a favourable picture of our most popular destination. This is why, together with the London Tourist Board and industry partners, we are launching a campaign in the US which will highlight what our great capital has to offer.

But promotion has to be matched to performance and we cannot afford to be complacent. We have to listen to what visitors tell us. London still has its share of problems and we have called for a determined effort to tackle them. We hope Londoners will respond, because the income from tourism, some £4.5bn a year, is vitally important to all.

William Davis,
chairman,
British Tourist Authority,
24 Grosvenor Gardens,
London SW1W 0ET

ERM exerts no constraints on freedom of currency markets

From Mr Nicholas Colchester.

Sir, From time to time your columnists assert that the exchange rate mechanism is a denial of the free market, because it attempts to fix the price of sterling. Joe Rogaly did so scathingly last week ("Mr Majtricht's logic", September 8).

In fact, the market in sterling – and any other ERM currency – is totally free: no private buyer is constrained to buy, and no private seller is prevented from selling, at the going price. No foreign exchange traders are told to obey price controls. No exchange controls are constraining the free decision of investors to get into or out of the currency.

There happens to be a powerful swing producer at work. The British government is to sterling what Saudi Arabia is to crude oil. It is not the sole creator of sterling – the banking system makes money too – but it is a very powerful supplier of it. In any trade, those in such a privileged position always have two options, both consistent with the free market.

They can decide, in some way, on an output and let the price move around. Or they can decide on a price and alter the supply. Both strategies are an everyday part of business life.

There is room for argument as to which of those two options the government and the Bank of England should pursue. Those who believe – count me in – that the main function of money is to have a stable worth will be inclined to maintain its price against something, whether gold, the D-Mark or goods in general, and vary its supply. Those who see sterling mainly as a lubricant for economic activity will want to print a generous supply of it, and let the markets value the result.

That is the essence of the argument about the pound in the ERM. In conducting it, neither side can argue that the other is trying to throttle market forces.

Nicholas Colchester,
37 Arundel Gardens,
London W11

Insurers work with patients to contain charges

From Mr Roy Forman.

Sir, Mr Lawrence's letter (September 10) criticised medical insurers for discouraging the patients of hospitals and specialists from approving or querying their charges.

He asserted that it was "in the interests of efficiency" that insurers settle a patient's bills by paying the health care provider rather than the insured person. That is not so. Direct settlement, which was initiated years ago by PPP, was introduced as a service to the subscriber, to minimise the worry to the a patient caused by having to pay large sums himself, be out-of-pocket for a while, and reclaim the money from his insurer. The direct settlement system costs the insurer, in cash flow terms, more money, but that was judged to be worthwhile to give this valuable service to the patient.

Despite Mr Lawrence's implication that direct settlement is done without the patient's approval, in most cases it has in fact been done only with his express prior consent.

Far from not wanting patients to check their accounts from health care providers, PPP actually states in current literature: "Please check thoroughly any medical bills to ensure that they accurately reflect the services provided."

We therefore already act in agreement with Mr Lawrence's basic point that insurers need to work with patients in seeking to constrain increasing charges.

Roy Forman,
managing director,
Private Patients Plan,
PPP House,
Tunbridge Wells,
Kent TN1 1BJ

British companies display little determination to export

From Mr Gavin Clezy.

Sir, In Britain we are rightly concerned at our negative trade balance, but even a serious recession doesn't seem to have significantly blunted our thirst for imports. Much is made of the relative strength of sterling, the quality of our products, R&D, delivery service, etc. but, important as all these may be, I suggest that there is another, rather simpler, explanation for our success in importing rather than exporting. Importing is so much easier.

As a British but bilateral Chamber of Commerce we do our best to help British companies export to Italy and, committed to the concept of trade, we also help Italian companies export to Britain. When we receive a request for information we write in reply stating exactly what we can supply and how much we will charge for it. This information is usually quite simple and the amounts charged are extremely modest.

So far this year only 14 per cent of British companies have taken up our offers and this compares with a much more positive 52 per cent response from Italian companies. And this despite the fact that, from long and negative experience, we charge UK companies less than those in Italy. As a result our income from Italian companies for this type of service is over five times as much as that from British companies.

Our experience is shared by local, Italian market research organisations which have great difficulty in persuading potential British exporters to pay more serious sums of money for more profound research. I believe our experience as a chamber is similar to that of other British chambers in Europe and wonder if we have given up the belief that "one has to spend money to make money".

Or is it simply another symptom of our lack of determination and tenacity in increasingly competitive world markets? If I were chairman of a UK company and worried about results I would have a good, hard look at the export department.

Gavin Clezy,
chief executive,
British Chamber of Commerce for Italy,
Via Agnello 8,
20121 Milan,
Italy

FINANCIAL TIMES
Monday September 14 1992

Minister warns German stability is 'at risk' because of asylum seekers

Kinkel calls for aid on refugees

By Lionel Barber in Hatfield, England

MR KLAUS KINKEL, the German foreign minister, yesterday issued an urgent plea for help in dealing with the refugee crisis, warning that Germany's political stability was at risk because the flood of asylum-seekers from Yugoslavia and Eastern Europe.

Mr Kinkel said Germany was shouldering a disproportionate burden. Although he avoided calling for quotas on refugees, he urged EC countries for greater understanding. "This is the principal problem for Germany," he said.

Amid continuing riots in the former east Germany and attacks on refugee hostels, Mr Kinkel said Germany had so far taken in more than 220,000 asylum seekers from Bosnia - more than any other country apart from neighbouring Croatia. Millions more potential economic refugees were sitting on their suitcases in Eastern Europe, he said.

EC foreign ministers expressed sympathy, but avoided a commitment to spread the load by relaxing their own immigration controls. Instead, they agreed to speed up Community efforts to reach a common approach required because of the difference in laws. Germany's asylum laws are the most liberal in western Europe.

Mr Douglas Hurd, British foreign secretary, reminded ministers that the UK had faced an immigration crisis in the 1960s and 1970s. This had led to the rise of the National Front and "very considerable agitation commotion". Britain had subsequently dealt the problem, "and we do not wish it to return," he said at the end of the weekend meeting at Brockett Hall, Hertfordshire.

The EC is taking two-track approach to the immigration problem, starting with an emergency humanitarian effort in the new Yugoslavia aimed at assuring food supplies and helping the refugees to stay as close to their homes as possible. Improving the refugee camps in Bosnia and Croatia as the winter approaches is vital, said one EC official.

The second aim is to identify the scope of the problem which ranges from the threat of mass immigration from economically-depressed Eastern Europe to the migration pressures from North Africa.

Another concern is the impending impact of the single European market which will provide for the free movement of EC citizens after the end of the year.

This week, EC justice and interior ministers are to meet in Brussels for talks on the immigration issue. With racist pressures building up in France and Germany as a result of the increases in refugees, ministers agreed that immigration is becoming one of the most pressing issues facing the Community.

● Ministers agreed to improve the humanitarian aid effort to Somalia. Some 185,000 tonnes of food are being dispatched, as well as some Ecu50m ($72m) of non-food aid. The European Commission is to send observers to Somalia to improve aid co-ordination. Mr Hurd is to hold talks with Mr Boutros Ghali, the UN Secretary General, to work out plans for a political solution.

Austria closes hostels, Page 2

Democrats win slim majority in Thai poll

By Victor Mallet in Bangkok

Pro-democracy leader Chamlong Srimuang is surrounded by journalists after voting

PARTIES opposed to military interference in Thai politics appeared to have won a slim parliamentary majority in yesterday's general election in Thailand, four months after troops killed at least 50 pro-democracy demonstrators in Bangkok.

With most of the votes counted, Mr Chuan Leekpai, leader of the Democrat Party, was preparing an attempt to form a coalition government. His party won about 80 seats, the largest bloc in the 360-seat House of Representatives.

With the support of three other members of a loose pro-democracy alliance – the New Aspiration Party, Palang Dharma (Moral Force) and Solidarity – Mr Chuan is expected to form a government with at least 185 seats.

One or more of the other parties may be co-opted to strengthen the coalition, but Mr Chuan has promised to exclude politicians accused of corruption from his cabinet.

Businessmen and parliamentary colleagues regard 54-year-old Mr Chuan as a responsible if uninspiring politician.

He has won his seat in the Democrat stronghold of Trang in southern Thailand nine times in a row, and has served as minister of agriculture, education, commerce, justice and health.

Mr Chuan, who heads Thailand's oldest party, won widespread support in the election because he opposed the military during the demonstrations in May but attempted to resolve the conflict in parliament rather than on the streets.

Mr Chamlong Srimuang, the devout Buddhist known as Mr Clean who heads Palang Dharma and led the street protests, lost support to the Democrats in his Bangkok stronghold but made gains elsewhere.

Politicians sympathetic to the military did well in rural areas, and Chart Thai (Thai Nation) won about 72 seats, the second highest number, followed by about 60 for the Chart Pattana (National Development) party of the former prime minister, Mr Chatichai Choonhavan.

In spite of the strong showing of the pro-democracy parties yesterday, the campaign was marred by the widespread corruption and violence which have long been a feature of Thai elections.

At least seven canvassers were shot dead by political rivals on the eve of the poll, and wealthy politicians paid out what Pollwatch, the independent monitoring agency, described as "a huge sum of money" to buy votes in the poorer rural areas.

"The number of complaints we received is about the same as last time," said Professor Kasem Suwanagul, Pollwatch chairman, "but there seems to be more violence – shooting and so on – in certain provinces where there are influential candidates."

Thai politics have been shaken up since a group of pro-military parties won the previous election in March this year. Thousands of demonstrators protested in the streets of Bangkok in May against the military.

Euphoria fades as peace talks resume

Mideast negotiators think the politicians have set their sights too high

By Roger Matthews, Middle East Editor, in London

MIDDLE EAST peace negotiations should settle back into a more sober mood today after the public, long-distance diplomacy of the past week.

As the five teams representing Israel, Syria, the Palestinians, Jordan and Lebanon return to the State Department in Washington after a 10-day recess, they will be well aware that it will be impossible to maintain international expectations at the levels encouraged by some of their political masters in the past few days.

The underlying cause for celebration during the sixth round of negotiations which opened on August 23 has been the impact of the defeat of the Likud government in Israel in June.

The Labour victory transformed the atmosphere at the talks and opened a door that had been slammed shut on substantive issues involving a trade of land for peace as demanded by UN Resolutions 242 and 338.

At one level this has led Mr Yossi Gal, the Israeli spokesman, to refer, beamingly, to "our Palestinian friends" and to admit to no more than "slight frustration" after a fruitless day at the negotiating table. At a less visible level, it has led to the formal exchange of negotiating documents for the first time since the process opened in Madrid last October.

Both developments are encouraging, but have to be seen against the sterility of the previous five rounds rather than as a guarantee of future progress.

Onlookers will increasingly have to be aware of at least three sets of negotiations and the extent to which public utterances are tailored for particular audiences.

First, there are the Washington negotiations, next come the public statements designed to influence domestic and international public opinion, and third, and most important, are the direct discussions going on between government leaders such as the recent private dinner between President George Bush and King Hussein of Jordan.

The past week has been dominated by public statements, primarily by Israeli leaders in apparently euphoric mood about signs of Syrian flexibility over the issue of the Golan Heights.

Syria's position from the outset has been fairly clear and uncompromising. In response to the improved atmosphere, it is now more evident: return all of the Golan, every last square centimetre, and in return there can be the same sort of peace treaty that was signed between Egypt and Israel in 1979. Senior US officials do not doubt such a deal is possible, accompanied of course by extensive security guarantees.

The question in their minds is less whether Syrian President Assad would sign on those terms but whether Mr Yitzhak Rabin, Israel's prime minister, will go beyond his stated readiness for "territorial compromise" and can carry the majority of public opinion sufficiently to offset the backlash from settlers and his extreme right-wing opponents. His recent speeches extolling perceived changes in Syrian attitudes seemed to reflect that need as much as any real developments in the Washington negotiations.

Talking up the prospects of a deal with Syria has another useful purpose for Mr Rabin: it helps to unsettle the Palestinians, who never lose sight of the risk that Syria, like Egypt under President Sadat, could abandon them by signing a separate deal.

"Officially we want all the sets of negotiations to proceed roughly in step, but there's always a risk that one will suddenly accelerate. The Syrians and Palestinians watch each other like hawks", said a senior Arab diplomat.

The problem is exacerbated because the Palestinian-Israeli talks are far more complex and do not address the final status of the territories occupied by Israel in 1967.

The purpose of the negotiations is to agree only on a five-year interim self-governing authority for the West Bank and Gaza. After the first three years of that period negotiations will begin on the final status of the territories.

The Palestinians are adamant that an elected self-governing authority cannot be solely the administrative arm of an occupying army. It must, they say, have some legislative role and a start has to be made in checking the procedures through which Israel has seized more than 60 per cent of the territories and is in the process of completing another 11,000 homes which will push the Jewish population to more than 150,000.

Israel refuses to contemplate any legislative function for the Palestinians, saying this would give them the taste of statehood, which is not on offer.

The first concrete step towards bridging that divide needs to be taken before the sixth round ends on September 24 if a negotiating momentum is to be achieved. It is likely to come through agreement by the two sides on an agenda, which, though in part a procedural document, also has political substance.

The signing of the first ever agreed document by Israelis and Palestinians would, say the optimists, make subsequent deals that much easier. "I am not an optimist," said an Arab diplomat who is close to the Washington negotiations. "I am not a pessimist. I am a fatalist. When you look around at everything that has happened in the world in the last few years it is obvious that these people have to make peace. Everyone else wants them to. It's their fate. And that's what we need to cling to when the going gets really rough."

World Weather

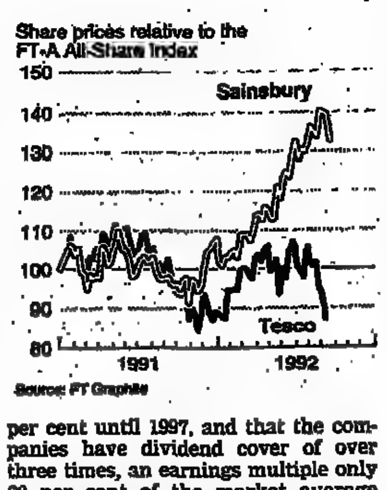
		°C	°F
Ajaccio	S	26	79
Algiers	S	30	86
Amsterdam	R	16	61
Athens	S	28	82
Bahrain	S	35	95
Bangkok	F	35	95
Barcelona	S	25	77
Beijing	F	28	82
Beirut		–	–
Belfast	F	12	54
Belgrade	F	26	79
Berlin	F	18	64
Biarritz	C	21	[illegible]
Bombay	F	30	86
Bordeaux	S	25	77
Boulogne	C	17	63
Brussels	F	20	68
Budapest	[illegible]	23	73
Buenos Aires	R	15	59
Cairo	S	31	88
Cape Town	S	21	[illegible]
Caracas	F	29	84
Casablanca †	S	24	75
Chicago †	S	14	57
Cologne	F	19	66
Copenhagen	F	17	63
Corfu	S	28	82
Dallas †	S	21	70
Dublin	F	13	55
Dubrovnik		–	–
Edinburgh	F	[illegible]	55
Faro	S	27	81
Florence	S	30	86
Frankfurt	F	17	63
Geneva	S	19	66
Gibraltar	F	24	75
Glasgow	F	11	52
Helsinki	[illegible]	16	61
Hong Kong	F	31	88
Innsbruck	F	22	72
Inverness	F	13	55
Islamabad	F	32	90
Istanbul	F	[illegible]	73
Jakarta	[illegible]	32	90
Johannesburg	S	27	81
Lisbon	S	22	72
London	R	14	57
Los Angeles †	C	18	64
Luxembourg	S	17	63
Madeira	F	24	75
Madrid	S	28	82
Majorca	S	28	82
Malaga	F	27	81
Malta	S	[illegible]	84
Manila	[illegible]	33	91
Melbourne	C	11	52
Mexico City	C	21	68
Miami †	F	25	77
Milan	S	27	81
Montreal †	S	[illegible]	54
Moscow	C	13	55
Munich	S	21	70
Nairobi	F	21	70
Naples	S	30	86
Nassau	C	31	87
New Delhi	S	31	88
New York †	[illegible]	14	57
Nice	S	27	81
Nicosia	S	28	82
Oporto	S	18	64
Oslo	F	14	57
Paris	S	20	68
Prague	S	21	70
Reykjavik	F	7	45
Rhodes	S	28	82
Rio d'Janeiro		–	–
Rome	S	28	82
Salzburg	S	20	68
S'Francisco †	S	13	55
Seoul	F	22	72
Singapore	F	[illegible]	84
Stockholm	F	16	61
Strasbourg	S	23	73
Sydney	S	[illegible]	59
Taipei	F	32	[illegible]
Tangier	S	30	86
Tel Aviv	F	29	84
Tenerife	F	27	81
Tokyo	F	27	81
Toronto †	S	9	48
Tunis	S	30	86
Valencia	F	26	79
Venice	S	26	79
Vienna	S	[illegible]	73
Warsaw	S	21	70
Washington †	S	14	57
Zurich	[illegible]	22	72

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

Not such super stores

Recession came late to Britain's food retailers. In part that reflects the power that the large supermarket groups wield. They have managed to maintain their margins by squeezing their suppliers hard, as the pain in the food manufacturing sector amply demonstrates. Good stock control and a tight grip on staff costs have also helped the giants – Sainsbury, Tesco and Safeway – preserve their position at the expense of smaller firms. But there are limits to that strategy. Excluding the effects of new stores and Sunday opening, sales volumes are disappointing.



Source: FT Graphite

Tesco, which reports interim figures next week, seems to be suffering more than Sainsbury, the market leader, or Safeway. This may partly be because it sells more goods vulnerable to price wars, such as petrol and children's clothing, and its customers may have suffered more in the recession. But in trying to control costs, Tesco has withdrawn expensive facilities such as bakeries from some stores, and that may put some high-spending customers off.

Given the enormous capital expenditure programme, and the rights issue which helped fund it, investors can be forgiven for wondering whether they will see an appropriate return. This is all the more so since its expensive developments are not depreciated and are of questionable value for alternative uses. Much of that concern has been reflected in the market rating of Tesco this year. But with Sainsbury benefiting as Tesco falters, it may be right to stick with the market leader.

Electricity

If the mooted five-year deal to supply coal to the UK power generators is eventually signed, the electricity and coal industries will be free of a large measure of uncertainty. The electricity generators, National Power and PowerGen, will have secured around a half of their requirements at attractive prices. And while the direct cost savings of the deal will be passed on to consumers, the generators will be able to buy more cheap coal from abroad. With the additional benefits of separate rationalisation programmes, profits should move ahead strongly over the next few years despite falling electricity sales.

This might be taken to support the case for valuing the generators on their earnings prospects, rather than by the traditional yield measure used for regulated utilities. Given that annual earnings growth might be 5-10 per cent until 1997, and that the companies have dividend cover of over three times, an earnings multiple only 60 per cent of the market average looks much too low. However, the regulatory risk has not disappeared: the generators may yet be sucked into a war of attrition with the authorities like that which has befallen British Gas.

On that basis, a yield below the market average would leave the companies looking vulnerable were it not for a dividend cover which allows scope for a generous increase in payouts. At the very least the generators should thus be able to regard their recent outperformance as a move to a new trading range.

The regional electricity companies should also benefit from the deal. Lower electricity prices will ease the regulatory pressure, but given their recent strong performance, the shares may have already discounted that. Poor British Coal can hardly share the optimism. The government seems to have decided that even a five-year deal which subsidised coal would not be enough to persuade the market to accept the company as it currently stands. So British Coal would be forced to face the harsh capacity realities sooner rather than later.

Swiss Franc

It is by now almost axiomatic to blame at least part of the recent turmoil in currency markets on doubts over the ability of European currencies to keep up with the D-Mark. One currency which has done even better in recent months, however, is the Swiss franc. Its rise against the D-Mark of roughly 5 per cent since May is all the more remarkable in that Switzerland has also managed to undercut German interest rates. These are normally considered a floor for other European countries whether members of the ERM or not. But three-month Eurofranc rates are a full 2 percentage points below their D-Mark equivalent.

Doubtless it helps that, in contrast to Germany, Swiss money supply growth is now within reasonable bounds while inflation rates in the two countries are roughly level-pegging. But it would be rash to ascribe the franc's strength purely to the skills of the Swiss National Bank. Though hard to quantify, the Swiss currency once again seems to be playing something of a refuge role. It would be unlikely if Italy's economic crisis, which was moving to a head last night, had not provoked some revival of the traditional outflow of capital to its northern neighbour.

At a more general level, the franc's performance can be seen as the mirror image of other European currencies in the Maastricht debate over currency union. The franc would be vulnerable were monetary union to proceed. It would be perceived as a small currency subject to speculative flows.

Conversely it has some attractions as a safe haven if the Maastricht exercise fails and bond markets around Europe decide to ditch the convergence theory on interest rates. Investors cannot put all their money in D-Marks. Japan and the US have drawbacks of their own. It is probably no coincidence that the franc began to appreciate around the time of the Danish referendum. Whether that continues may now depend on next Sunday's vote in France as well as reactions to yesterday's realignment.

UK stock market

Markets thrive on rumour, not least in the so-called close season ahead of results when companies are not permitted to state their case. But according to the chief executive of one Footsie company last week some of the wilder stories of the last few weeks – particularly in the food sector – have become a serious drain on management time and company morale. Traders are obviously desperate to drum up business – by any means – but it is also the case that the UK economy appeared to take another dip earlier in the summer just as boards were going into purdah. Investors should beware, but vicious tongues are merely one reflection of the market's inability to find an appropriate level.

FINANCIAL TIMES
COMPANIES & MARKETS

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INSIDE

Benetton family buys 50% stake in TWR

Italy's Benetton family has bought a 50 per cent stake in the TWR Group, the UK motor racing, research and consulting company. Mr Alessandro Benetton, 28, and his father, Mr Luciano Benetton, will join TWR's board. TWR, based in Chipping Norton in southern England, has around 700 employees and expects sales this year of around £170m. The company designs and develops prototype cars and is also active in motor sport and Formula One racing. Page 21

Bonds set for volatile trading

Today's promised cut in German interest rates will kick off a week of volatile trading in European government bond markets in the run up the French referendum on the Maastricht treaty. German yields, which were already falling last week as investors switched out of higher yielding paper, could now be set to fall sharply. Page 22

Sansui still in the red

The latest results from Sansui Electric, the Japanese consumer electronics company and former Polly Peck subsidiary, were hit by what is expected to be the final big write-off in the company's post-Polly Peck corporate restructuring. Sansui is still in the red at the operating level. Page 21

Foodmark to buy Macfish

Foodmark, the Danish seafoods group, has agreed to buy Macfish, the Scottish fish processing venture jointly owned by Geest and Associated Fisheries. The Danish group has agreed to pay Geest £9.2m and Associated Fisheries £9.16m. Page 20

All ears on Bush

The approaching US presidential election, and the increasingly heated campaigning, now give an added twist to each set of dismal statistics which fails to indicate any meaningful recovery in the US. So the bond market was all ears when President George Bush spoke to the Detroit Economic Club last Thursday. Page 22

Market Statistics

Companies in this issue

Banks meet on Jubilee Line extension

By Robert Peston in London

BANKS meeting in Toronto today may decide the fate of the Jubilee Line extension to London's docklands and whether a move to acquire Canary Wharf organised by Mr Paul Reichmann, founder of the financially troubled property development, will succeed.

The 11 commercial bank lenders to Canary Wharf have been told by the UK government they must submit proposals for a private sector contribution to the cost of the Jubilee Line by the end of September.

A banker who will attend the meeting said there was "no chance" of the banks agreeing on how any Jubilee contribution should be made by that deadline.

Another banker said he did not believe the government was "serious" about the deadline. However a government official said over the weekend that there was no possibility of the Jubilee Line extension being built without a proposal from the banks on a payment by the time next year's public spending is decided.

Control of Canary Wharf passed to administrators, under UK insolvency legislation, at the end of May.

To date, neither the banks, nor the administrators, who are three partners of Ernst & Young, the accountancy firm, have come up with detailed plans to complete the huge east London property development or fund the Jubilee extension. One banker described this lack of progress as "a shambles". However, an investment consortium formed by Mr Paul Reichmann – whose company, Olympia & York, created Canary Wharf – has made the only detailed takeover proposal to be received by the banks.

Some banks are opposed to any proposal linked to Mr Reichmann, because they blame him for the huge losses they face on loans to O&Y projects. One European bank said it was implacably opposed.

The investment consortium, whose members include Mr Larry Tisch, the media billionaire, Mr Sandy Weill, the financier, and Mr Lewis Ranieri, the investment banker, proposes to lend between £235m ($463m) and £250m to recapitalise Canary Wharf and contribute to the Jubilee Line.

The precise amount they lend will depend on two factors:

- They will provide £50m less if the administrators sell the freeholds of two Canary Wharf buildings to Texaco, the oil company, and Morgan Stanley, the investment bank. The consortium believes these sales would reduce the project's long-term value.
- An unfavourable deal on letting office space to the UK government would reduce by £65m the amount to be lent.

Though Mr Reichmann will not provide any of the consortium's capital, he would benefit if their bid were to succeed. The consortium would get 60 per cent of the equity in phases 1 and 2a of Canary Wharf's development and 40 per cent of later phases.

However, Mr Reichmann is insisting on getting a 60 per cent equity interest in later phases and 20 per cent of the early phases – leaving the banks with an interest of just 20 per cent of phases 1 and 2a.

All the banks reject the consortium's proposal that it should be repaid in full before the banks receive any principal or interest. They also want a higher interest rate than the 5 per cent proposed by the consortium.

The consortium however believes that under its proposal banks would eventually be repaid between 82 per cent and 100 per cent of their loans.

Sara Webb analyses problems facing the centre-right government over the troubled banking sector

Sweden's banks face a legacy from the 1980s

Big four Swedish banks

Krona million	S E Banken 4 months to Apr 30, 1992	S E Banken 4 months to Apr 30, 1991	Svenska Handelsbanken 4 months to Apr 30, 1992	Svenska Handelsbanken 4 months to Apr 30, 1991	Nordbanken 4 months to Apr 30, 1992	Nordbanken 4 months to Apr 30, 1991	Gota Bank (Götabanken) 4 months to Apr 30, 1992	Gota Bank (Götabanken) 4 months to Apr 30, 1991
Pre-tax profit (loss)	(594)	752	664	1,023	(1,970)	(1,745)	(491)	(477)
Loan loss provision	(2,500)	(1,587)	(1,599)	(1,083)	(3,208)	(3,497)	(167)	(1,235)
Total loans	306,518	315,353	286,844	270,819	237,000	246,000	74,209	78,065
Net non-performing loans (60 days)	8,791		10,074		12,700		11,088	

Source: IBCA

With two banks already rescued and a third in serious difficulties, the Swedish government is now working to avoid the entire banking sector falling under its control.

"We have reached a point where the whole banking system seems to have severe problems. If we don't take precautions, we might end up with all the banks being state-owned" says Mr Urban Bäckström, deputy to the Swedish minister of taxation and financial markets.

For Sweden's centre-right government, committed to the privatisation of state-controlled companies, the last thing it wants is to nationalise banks. Yet two of Sweden's banks – Nordbanken (the second largest commercial bank) and Första Sparbanken (one of the large savings banks) – have had to be rescued by the state. Now a third looks set to join the casualties.

Last week, the Swedish government was forced to pledge its support for Gota Bank, the fourth largest commercial bank, after it emerged that credit losses for 1992 are likely to reach SKr8bn ($1.51bn) or double Gota's previous forecast.

The Finance Ministry must now find a solution to Gota's problems, which will not be made easier by last week's turbulence in the Nordic financial markets. The Bank of Finland's decision to cut the markka's link to the Ecu prompted a big outflow of capital from the region. Sweden's central bank increased its marginal lending rate from 16 per cent to 24 per cent and then to 75 per cent in an effort to reverse a currency outflow.

Swedish short-term interest rates shot up: if they remain high the effect on the economy and the banks could be serious.

"The banks are being squeezed [by the high interest rates] and are taking a blow" admitted Mr Bengt Dennis, governor of the Riksbank, Sweden's central bank, last week. Mr Lars Jagren, an economist at the Federation of Swedish Industries, warned that if interest rates remain high, the consequences would include weak demand for loans, an increase in the number of bankruptcies, and a further fall in property prices – all of which would be bad news for the banks.

On Friday, Moody's, the international credit rating agency, placed the long-term debt ratings of Nordbanken, Skandinaviska Enskilda Banken (the biggest Swedish bank), Svenska Handelsbanken (the third largest bank), and Swedbank (the new savings bank group) under review for possible downgrade.

The banking sector's troubles can be traced back to the end of 1985 when controls on bank lending were lifted. Mr Sten Westerberg, of financial advisers Westerberg & Co, points out that tax rules encouraging people to borrow (by making interest payments tax deductible) were retained, as were restrictions on investing abroad.

As a result, Swedes borrowed heavily and channelled the money into the domestic stock and property markets. Property and share prices soared in the second half of the 1980s.

Banks scrambled for new customers, and paid scant heed to analysing their credit-worthiness.

Mr Sahlen believes there were important differences in behaviour between the various banks. Before deregulation, Gota, Nordbanken and Första Sparbanken had concentrated on the household sector. But once credit controls were lifted, they concentrated on boosting their corporate business and chased after new customers, particularly in the property sector.

Today, about 60 per cent of the banking sector's loans are related to property. Mr Sahlen claims that these three banks have a proportionately greater exposure to troubled property and have a higher proportion of non-performing loans in relation to their total lending than the other Swedish banks.

By contrast, Mr Sahlen says, Skandinaviska Enskilda Banken and Svenska Handelsbanken both had a long tradition of lending to Swedish industry. Many of their corporate customers belong to "spheres" of interlinked customers, which the banks know well. As a result neither of these banks was as aggressive in the pursuit of new corporate business after deregulation.

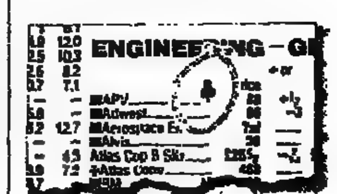
The government has promised to meet all of Gota Bank's obligations to other banks, corporate and individual customers. Over the next few weeks, Ministry of Finance officials will discuss with Gota and its owner, the Trygg Hansa insurance group, how best to save Gota.

The government is also drawing up a rescue plan for the banking system. "The banks are suffering from temporary large credit losses" says Mr Bäckström. By the end of 1991, credit losses for the banking sector reached about SKr45bn: Mr Bäckström warns that additional credit losses over the next few years could amount to between SKr50bn and SKr90bn.

His department is studying ways of alleviating the burden, either by providing insurance to the banks against credit losses or allowing the state to take on the bad debts, provided the banks pay the state back over a period of years.

"We have to maintain the stability of the system" sighs Mr Bäckström. At the end of the day, he admits, it is the taxpayers and customers who will foot the bill for the banks' mistakes in the 1980s.

Free annual report service



THE FINANCIAL TIMES has launched a new service for private investors who would like to receive the annual reports of listed companies.

Readers wanting companies' annual or interim report can now use a single telephone number to obtain them, free.

The key to the new service is the London Share Service pages of the FT, the last two inside pages of the second section.

Here's how the service works:

1. Look up the company name. Companies are arranged by industry sector.

Those companies for which the service is available are marked with an ace-of-clubs symbol after the company name. At the moment, 130 listed companies have agreed to join the service. Companies which have already joined include Bank of Scotland, Hanson, National Power, Smithkline Beecham and Unilever.

2. Turn to the bottom right-hand corner of the London Share Service.

In a box headed Free Annual Report Service you'll find the telephone number for the service and a code you must quote to make use of it.

3. Call the service, give the code, and ask for reports for the companies in which you are interested (only one report per company, please).

The lines are open between 9am and 5.30pm on weekdays but there is an answering service at other times.

Reports will be sent the next working day, depending on availability.

4. Remember that annual reports only become available a few weeks after the publication of the company's preliminary results.

5. There is no charge for using the service.

The telephone call is charged at normal rates.

Why realignment should not block EMS reform

Economics Notebook

By Peter Norman

What looked like a perfectly horrible week for Mr Norman Lamont, the UK Chancellor, has suddenly become more promising.

Having failed so far to produce economic recovery at home, he was due to head for Washington later this week with the seemingly impossible goal of resuscitating economic policy coordination among the leading industrial democracies.

Before yesterday's ERM realignment – and the even more striking announcement of an imminent cut in German interest rates – next weekend's meeting risked achieving a hollow victory. One similar, in fact, to that attained at the informal meeting of European Community finance ministers and central bank governors a week ago in Bath.

If anything, the four point statement agreed in Bath to stand by existing parities in the European Monetary System exacerbated tensions in the system once the perception grew that the German Bundesbank was less than wholehearted in its support.

Without yesterday's announcement, Mr Lamont would have had to face the problem of arriving in Washington as chairman of the EC finance ministers' council, to represent a continent with its monetary policies in disarray. The meeting would be one at which neither the US nor Japan, the other two main players, would want to commit themselves to policy change.

The biggest problem bedevilling world monetary relations has been the large 6.75 per cent differential between official US and German short-term interest rates. The US, with a presidential election less than two months away, has shown no signs of wishing to abandon the flexibility that has allowed it to push its discount rate to a 29-year low of 3 per cent in a bid to stimulate its economy.

In Bath, Mr Helmut Schlesinger, the Bundesbank president, offered no hope of an immediate cut in German rates. Over the past week, it appeared that Mr Schlesinger was extremely displeased at the way the chancellor appeared to hype the Bundesbank's Bath promise not to increase its interest rates "in present circumstances" into a victory for UK monetary diplomacy.

That left Mr Lamont preparing to deliver a gloomy message at the G7: the increasingly bleak outlook for economic activity in the western world; the problems caused by inappropriate mixes of fiscal and monetary policy in both the US and Germany; and the hazards lurking behind the dollar's recent sharp fall.

Yesterday's surprise move may ease currency market tensions in the short run, and will certainly restore his battered confidence. But he will have to admit, if only to himself, that his main problems lie not with the G7 but – still – with the EMS, on which the UK government has staked Britain's economic future.

Measured against the terms of its prospectus, the EMS has performed abysmally recently.

It was conceived in the summer of 1978 to create "a zone of monetary stability in Europe". One of the main reasons for its creation was a desire to protect Europe's economy from a weak dollar. The detailed negotiations that preceded the launch of the EMS in March 1979 were specifically intended to prevent it becoming a D-Mark zone. After the last big realignment of EMS currencies in 1987, new rules – the so called Basle-Nyborg agreement – were introduced to ensure that countries with virtuous economic policies (which at the time meant Germany) were not penalised in periods when the system was under strain in financial markets.

Inevitably some of these goals have been altered or fudged over time. In particular, the worry about D-Mark dominance gave way to an acceptance that the D-Mark, as the most stable of Europe's currencies, should be the "anchor" of the system.

But now that the strains of German unification have been grafted on to the EMS structure as it emerged from the Basle-Nyborg discussions, the EMS has failed to deliver the promises in its prospectus.

The recent exchange market turbulence and pressure on interest rates shows how it has been unable to act as a zone of monetary stability in Europe. It has not protected Europe from dollar weakness. The dominance of the D-Mark has been as strong as ever – a factor emphasised by last night's developments. Yet because the D-Mark has been unable to provide the low inflation standard that the system needs, countries with virtuous economic performances such as France, Denmark and Ireland, have been penalised.

This latter phenomenon made the latest EMS crisis so different from previous episodes of strain in the ERM and in its 1970s forerunner the European currency "snake".

In the past countries have also been forced to devalue, push interest rates to usurious levels and – in the case of the snake – quit the system. Disruptive though these episodes were, it could always be argued that the root causes of the problems lay with the countries in trouble. That was case with Italy. Until last night, the only penalty paid by Germany, in spite of its inflationary pressures, huge budget deficits and growing political and social weakness, had been a substantial increase in its foreign currency reserves through the forced purchase of Italian lire at the lower EMS intervention point.

Admittedly, recent EMS problems are not wholly the fault of Europe's monetary policymakers or the Bundesbank.

Financial markets have a lot to answer for. In a world where information travels at the speed of light, understanding seems still to spread at the speed of sail.

The D-Mark's strength takes account of past glories and the fact that it has never been devalued, rather than Germany's problems now.

Ministers are likely to portray last night's developments as a huge achievement.

But although the EMS now looks better placed to survive next Sunday's French referendum on the Maastricht Treaty, it remains at risk.

Mr Lamont, as president of the EC finance ministers' council, could do worse than order a thorough study of how it can be restored to a zone of monetary stability.

British Gas interested in Argentine state sell-off

By Neil Buckley in London

BRITISH Gas is preparing to launch a move – thought to be worth £50m ($100m) – for stakes in Argentina's gas transmission and distribution companies when Gas del Estado, the state gas company, is privatised later this year.

The company is interested in stakes in two newly-created transmission companies and eight regional distribution companies. Final bids are due on November 18, with stakes likely to be awarded soon afterwards.

The $2.7bn sale of Gas del Estado is one of Argentina's largest privatisations.

Gas del Estado has has a 6,500-mile main transmission network – which is to be split into two companies covering the north and south of the country – and 30,000 miles of distribution pipeline, to be split into eight regional companies. It has 4m customers, and total sales of 600bn cubic feet a year.

British Gas already has two exploration licences and interests in four of Argentina's producing oil and gas fields.

British Gas is keen to boost profits from its Global Gas business to offset the effect of falling earnings from its UK supply business, where regulators are forcing price cuts and accelerating competition. It already has gas distribution projects in Turkey, Egypt and Indonesia, and last year took a 5 per cent stake in Verbundnetz Gas, the former east German gas transmission company, and stakes in two German regional gas distribution companies.

Bank of Edinburgh to bid for building society

By David Barchard

MEMBERS of Heart of England, the 25th largest building society with assets of £1.1bn, may be offered a combination of cash and shares to endorse the takeover of the society by the Bank of Edinburgh.

News of the proposed takeover, which involves Heart of England shedding mutual status and becoming a division of Bank of Edinburgh, emerged at the weekend after 15 months of negotiations.

The move is the first-ever takeover of a British building society from outside the industry and will create a precedent for further takeovers. At least three other societies are known to have been in talks with possible purchasers.

Mr Mike Travis, Heart of England chief executive, said yesterday: "We believe the route we are taking will enable us to serve our members better and give us more flexibility, particularly for raising capital and funding, than staying mutual would do. We have considered mergers and flotations but we are not big enough for that."

He said that the society had received other informal approaches for takeovers, but the board had judged that Bank of Edinburgh offered the best opportunity.

The bank was set up two years ago with £26m in capital from investors headed by a Scottish mutual life assurance group. Its aim is to take over small or medium-sized building societies but to allow them to continue as separate retail banking subsidiaries.

Heart of England fits neatly into this pattern. It has a network of 50 branches and a customer base of 250,000. Last year it made pre-tax profits of £2.1m after bad debt provisions of £8.2m.

Mr Ken Murray, chief executive of Bank of Edinburgh, said that the takeover would enable the society to offer its customers more services, including, probably, a high interest cheque book current account.

He declined to comment on how Bank of Edinburgh proposes to overcome the stiff voting requirements for a building society takeover laid down in the 1986 Building Societies Act.

Heart of England's 206,000 members will have to approve the deal at a special general meeting at which at least half the society's members must vote and three quarters of votes cast must be in favour.

"We are confident that we will get the approval of Heart of England members," said Mr Ken Murray, chief executive of Bank of Edinburgh yesterday. He expected the vote to take place early in the new year.

News of the negotiations leaked out before Bank of Edinburgh had finalied the terms it will offer Heart of England members, but Mr Murray said that shares in the company could be offered as well as cash.

A cash distribution by the bank of even £150 to each member of the society seems unlikely unless the bank's investors are willing to put up a substantial amount of new money.

Danish group to acquire Macfish for about £18m

By Tim Burt

FOODMARK A/S, the Danish seafoods group, has agreed to pay more than £18m for Macfish, the Scottish fish processing venture jointly owned by Geest and Associated Fisheries.

The sale follows Geest's decision in March to seek a buyer for its 50 per cent stake in the company, based in Fraserburgh and Wearside. Associated Fisheries announced a similar plan in April following Macfish's mounting losses which last year exceeded £800,000 on a turnover of £48.5m.

The Danish group has agreed to pay Geest £9.2m and Associated Fisheries £9.16m for the business, stock and fixed assets of the frozen fish business.

Geest said funds raised by the sale would be reinvested in its core fresh produce business, while Associated Fisheries said it planned to use the money to reduce short-term borrowings and finance future investments.

Geest and Associated Fisheries expect the deal and a further sale of £2m of Macfish assets to cover the estimated value of their original investments in the Scottish company.

Geest said yesterday that over-capacity in fish processing and inadequate supplies of fish, which had pushed prices up and demand down, led to the decision to sell.

Foodmark, like Macfish, is already a large own label supplier to groups including Marks and Spencer.

Japanese parent injects £65m of new funds into Guinness Mahon

By Andrew Jack

GUINNESS MAHON, the merchant bank which is wholly owned by the Bank of Yokohama, has received a new injection of £65m from its Japanese parent as part of a restructuring of its operations.

Much of the money will support a new subsidiary called Guinness Mahon Loan Recoveries, which will hold provisions against loan losses and a contingency fund to cover future losses totalling nearly £50m.

Mr David Potter, chief executive of Guinness Mahon, yesterday denied that a crisis had caused the new funding, which brings total injections by Bank of Yokohama to nearly £200m since it first bought a stake in the company in 1989.

He said that the money – which was approved at a quarterly board meeting last Tuesday – was part of a financing package agreed 15 months ago and had been conditional on the management meeting a series of targets to restructure its operations.

"There is no crisis," he said. "This was part of a long and carefully planned process and was nothing sudden." He stressed that Guinness Mahon's credit rating had been recently upgraded, and that new, high quality executives had joined the company recently.

But he admitted that the provisions against bad loans – all of which were the responsibility of Guinness Mahon & Company, the merchant banking subsidiary – had been increased in the past few months.

Guinness Mahon suffered from a series of poor loans in leasing, property and general commercial areas made during the 1980s. Last year it lost its listing on the Stock Exchange when Yokohama pushed up its shareholding to 100 per cent.

Its last publicly announced pre-tax losses were £35.5m in the six months to March 31 1991, including bad debt provisions of £30m. Mr Potter said that in the following nine months losses were about £20m.

Part of the new funding has been earmarked for future development, particularly in the asset management and stockbroking businesses. A senior executive also said that Guinness Mahon's contract with Mr Geoffrey Bell, its chairman for the past four years, is unlikely to be renewed when it expires early next year.

EIT seeks £1.9m and agrees 2 purchases

EIT, the USM-quoted information technology group formerly known as Maxiprint, is to raise £1.9m via a rights issue and is acquiring Second City Systems, one of the largest Apple computer dealers in the UK.

The rights issue is on a 2-for-5 basis underwritten at 17p. The proceeds will be used to develop the company and reduce group borrowings.

Seven warrants will be issued for every 10 rights shares taken up.

Each warrant will carry the right to subscribe for one new ordinary share at 17p, exercisable between January 1 1993 and December 31 1993. Full subscription would raise an additional £1.5m.

Second City is to be acquired for a maximum of £650,000, satisfied by the issue of new EIT ordinary shares.

Of the total consideration £400,000 will be paid on completion, with the balance – up to a maximum of £250,000 – dependent upon profits for the year to April 30 1993.

EIT has also reached agreement in principle to acquire, for no initial cost, the UK maintenance and support contracts of Sequence Support Systems International, a US supplier of network and support systems.

In addition, the group proposes to sell its 70 per cent interest in Decisionaire Systems to its management for £200,000 cash.

TVS shows interest in TV arm of Carlton

By Raymond Snoddy

TVS Entertainment has expressed an interest in Zenith, the independent television production company controlled by Carlton Communications.

TVS, which lost its south of England franchise in last year's competitive tenders, is in the midst of deciding what its role should be when its franchise runs out in December. One option is to buy a number of stakes in production and facilities companies, another is to sell all its assets.

Ironically the 1990 Broadcasting Act which brought TVS to its knees is also the reason why a large stake in Zenith is up for sale.

Under the Act, broadcasters can own no more than 15 per cent of an independent production company if it is to retain its independent status. The status is commercially important because all of Britain's broadcasters have to commission at least 25 per cent of their output from independent producers.

Correction

British Aerospace

British Aerospace sold its 50 per cent stake in Starbird Satellite Services to World Wide Television News on July 30 last year. Due to incorrect information supplied on behalf of the company, Starbird was reported as being part of BAe in a Financial Times report on September 10.

Sabena plans to cut 1,000 more jobs

By Andrew Hill in Brussels

SABENA, Belgium's state-owned airline, is planning to cut a further 1,000 jobs on top of the 2,200 redundancies already planned as part of its two-year restructuring programme.

Some 37.6 per cent of the airline is now owned by Air France, the French state airline.

The European Commission announced last week that its merger control authorities would examine the Air France deal over the next month.

If they still have "serious doubts" about the effect of the deal on competition in the EC after four weeks they could open an in-depth inquiry lasting up to four months.

Sabena-Air France is only the second airline deal to be examined under the EC's two-year-old merger regulation.

In the only other case – the sale of Pan Am's assets to Delta Air Lines – the commission gave the go-ahead after the one-month preliminary investigation.

Announcing a new frequent flyer programme recently, Mr Pierre Godfroid, Sabena's chairman, said he expected the airline to break even by the end of the year, despite the group's operating loss of BFr300m in the first half of 1992.

Berkertex receivers sell Fifth Avenue to managers

By John Thornhill

THE RECEIVERS at Berkertex Group, the bridalwear manufacturer and retailer, have moved quickly to secure the sale of one of its largest subsidiaries, Fifth Avenue, a leading supplier to the fashion mail order catalogue trade.

Mr Paul Fabian and Mr Brian Worth, two of the company's managers, are staging a buy-out preserving 31 jobs. This move is backed by 3i, the venture capital group, and Barclays Bank.

The purchase price was not disclosed but it "substantially exceeded the company's break-up value", the receivers said.

Mr Christopher Morris, the receiver from Touche Ross, said Fifth Avenue was profitable but had been dragged down by the collapse last Friday of its heavily-indebted parent company. Last year Fifth Avenue's sales wereover £13m and in the current year are running at more than £9m.

Receivers have been criticised recently for selling businesses to existing managers before the assets recoverable for creditors can be fully assessed.

But Mr Morris defended a quick sale in this particular case. "This was an evaporating business. By Monday or Tuesday of next week there would have been nothing left to sell."

Isosceles duo resurface at CSI

By John Thornhill

MR DAVID Smith and Ms Elizabeth Hignell, the accounting duo who masterminded the Isosceles bid for the Gateway grocery chain in 1989 but who were ousted last September, have resurfaced in corporate life at Cannon Street Investments, the struggling industrial holding company.

The two join Mr Robin Binks, Cannon Street's chief executive and former merchant banker at SG Warburg, in trying to restore the loss-making company's straitened balance sheet.

In doing so they return a favour to Mr Binks who played a pivotal role in securing the finance for the Gateway acquisition while at Warburg.

Both Mr Smith and Ms Hignell can perhaps afford to chance their arm at the troubled CSI. Isosceles, which announced its annual results last week, revealed that it had paid the two former directors £1.9m for loss of office.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Internationale Nederlanden Group (Holland)	Banque Bruxelles Lambert (Belgium)	Banking	£1bn	Staged purchase plans
Bacardi (Bermuda)	Martini & Rossi (Italy)	Drinks	£750m	Significant investment confirmed
Gillette (US)	Parker Pen (UK)	Quality pens	£285m	Gillette doubling market share
Cimentos de Portugal (Portugal)	Corporacion Noroeste (Spain)	Cement	£133m	Spanish government approves
Hillsdown Holdings (UK)	Units of Beledin (Holland)	Chilled Foods	£50m	European base in sector
Cody Resources (US)	Unit of LASMO (UK)	Oil & gas	£42.5m	Completes US upstream sales
Investec (S Africa)	Allied Trust Bank (UK)	Banking	£25m	Investec gets UK presence
Automated Security (UK)	Sonitrol Corp (US)	Alarm verification	£21.1m	US targeted for growth
Fort Howard (US)	Stuart Edgar (UK)	Tissues	£13m	MetaSeria sale
Unimin (US)	Elkem Nefelin (Norway)	Mineral processing	£30m	Disposal nears completion

Big deals in restructuring industries dominated last week's international merger and acquisition activity, writes Brian Bollen.

In banking, the news from Holland that Internationale Nederlanden Group (ING) was prepared to launch a bid for Banque Bruxelles Lambert (BBL) came after months of arguments between BBL's institutional shareholders about future alliances. ING will not, however, launch a formal bid until it has had a close look at the books, and unless it can buy a 6.72 per cent stake held by Italian investors and can win more than 51 per cent. The fact that it will offer minority shareholders the same price as it plans to pay for the Italian stake is being seen as an encouraging continuation of a fragile trend towards the equal treatment of shareholders in continental Europe.

The restructuring of the international drinks industry continues with Bercadi-based rum specialist Bacardi agreeing to buy a large stake in Italy's Martini & Rossi.

The foreign takeover of Spain's cement industry looks a step nearer after Cimentos de Portugal won Spanish government approval to bid for Galicia's Corporacion Noroeste.

Further proof that buy-outs can still be exited from successfully comes with US toiletries group Gillette's purchase of Parker Pen. If profit-related payments and the value of debt being assumed is included in the equation, the deal is worth £340m, more than six times the value of the 1985 buyout.

Independent UK oil company LASMO completed the disposal of its US upstream assets, while South Africa's Investec Bank gained a presence in the UK with its purchase of Allied Trust Bank from Barclays.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 13.09.92: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	23.33	19.49	21.22
0100	20.11	19.41	21.14
0130	17.89	19.37	21.10
0200	[illegible]	19.37	21.11
0230	[illegible]	19.37	21.11
0300	17.69	19.30	21.04
0330	17.69	19.30	21.04
0400	17.66	19.30	21.04
0430	17.69	19.30	21.04
0500	17.69	19.30	21.05
0530	17.69	19.87	21.67
0600	17.69	19.87	[illegible]
0630	17.69	19.87	21.68
0700	17.58	19.87	[illegible]
0730	17.76	19.87	21.68
0800	20.57	20.49	22.27
0830	24.65	20.74	22.51
0900	24.65	20.93	22.69
0930	24.65	[illegible]	23.07
1000	24.65	21.46	[illegible]
1030	24.65	22.07	23.86
1100	24.65	22.22	24.01
1130	24.65	22.22	24.01
1200	28.01	23.09	24.90
1230	28.01	25.69	27.58
1300	28.01	25.69	27.58
1330	28.01	23.09	24.91
1400	24.65	22.22	24.02
1430	[illegible]	22.22	24.02
1500	21.94	17.74	17.74
1530	17.70	17.71	17.71
1600	17.71	17.70	17.70
1630	[illegible]	17.70	17.70
1700	22.44	17.74	17.74
1730	21.94	21.04	22.80
1800	22.44	22.22	24.02
1830	22.44	22.22	24.02
1900	22.44	22.22	24.02
1930	24.65	22.22	24.02
2000	28.01	22.22	24.02
2030	28.03	22.22	24.02
2100	28.03	27.31	29.29
2130	28.01	29.28	31.31
2200	25.65	29.28	31.31
2230	25.16	22.00	22.00
2300	21.16	17.85	17.85
2330	18.45	17.76	17.76
2400	18.48	17.71	17.71

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the [illegible] in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly [illegible] process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0902-456789 between 8.30am and 5.15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 14.09.92: Pool purchase price £/MWh	Final Prices for Trading on 17.08.92: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.46	17.70	17.70
0100	18.46	17.70	17.70
0130	18.46	17.70	17.70
0200	18.46	17.70	17.70
0230	18.46	17.70	17.70
0300	18.46	17.70	17.70
0330	18.46	17.70	17.70
0400	18.46	17.70	17.70
0430	18.46	17.70	17.70
0500	18.46	17.70	17.70
0530	19.83	17.64	17.64
0600	17.71	17.58	17.58
0630	19.83	17.64	17.64
0700	[illegible]	17.71	17.71
0730	23.99	20.98	25.17
0800	24.80	[illegible]	26.08
0830	28.04	25.12	29.38
0900	28.08	24.78	28.98
0930	28.12	28.03	32.27
1000	28.16	28.04	32.23
1030	28.16	28.06	32.24
1100	28.15	28.08	32.28
1130	24.96	28.15	32.37
1200	28.23	[illegible]	32.42
1230	28.22	28.18	32.40
1300	28.15	28.12	32.33
1330	24.84	28.06	32.24
1400	24.82	25.14	29.26
1430	24.81	25.14	29.24
1500	[illegible]	25.13	29.27
1530	24.81	[illegible]	29.27
1600	24.83	25.14	29.28
1630	24.80	25.14	29.27
1700	28.17	[illegible]	29.27
1730	28.14	25.13	29.28
1800	28.07	24.75	28.88
1830	23.89	24.75	28.88
1900	21.70	23.68	27.80
1930	22.00	21.65	21.65
2000	25.83	[illegible]	21.88
2030	28.02	22.10	22.10
2100	28.02	25.84	30.84
2130	25.62	28.38	32.60
2200	23.55	28.39	32.83
2230	23.56	28.11	27.23
2300	23.17	22.59	26.72
2330	22.00	22.41	25.55
2400	17.76	22.41	26.57

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Benetton takes 50% stake in TWR

By Haig Simonian in Milan

The new Jaguar XJ220 is being produced in a limited edition of 350 vehicles, each costing £415,000

ITALY'S fast-diversifying Benetton family has shifted into a new area of activity with the purchase of a 50 per cent stake in the TWR Group, the UK motor racing, research and consulting company run by Mr Tom Walkinshaw.

No price for the deal has been disclosed. However, a spokesman for Edizione Holding, the Benetton's family holding company which is making the investment, said its involvement would "alter TWR's debt-equity ratio," thereby ensuring a £60m ($114.6m) bank loan destined for new projects.

TWR, based in Chipping Norton, Oxfordshire, has around 700 employees and expects sales this year of around £170m. The company designs and develops prototype cars and is also active in motor sport and Formula One racing.

Among the best known of its current projects is the new Jaguar XJ220 super-car, which is being produced in a limited edition of 350 vehicles costing £415,000 each.

The group has grown dramatically, with turnover surging by 819 per cent in the past six years. Among new projects on its drawing board are contracts for Ford, Mazda, Rover and Holden, General Motors' Australian subsidiary, as well as a joint venture with Aston Martin, which has entrusted TWR to develop a new model for 1994. The company is also working on an advanced electric car.

The Benetton family's stake is to be held by 21 Investimenti, a new subsidiary of Edizione Holding set up last year to spearhead investments in new activities. Apart from controlling the family's stake of around 80 per cent in the Benetton clothing concern, Edizione Holding has expanded into sports goods equipment, with a string of takeovers of famous brands and property.

Mr Alessandro Benetton, the 28-year-old second son of Benetton's guiding light, Mr Luciano Benetton, will join TWR's board. The two men have already established contacts through Benetton's activities in Formula One motor racing, which are under Mr Alessandro Benetton's control. Earlier this month, he also joined the board of Edizione Holding.

BSN scales down plans to restrict voting rights

By William Dawkins in Paris

BSN, France's largest food group, has scaled down plans to protect itself from hostile takeovers, in response to objections from institutional shareholders that their voting rights were being curbed.

Mr Antoine Riboud, BSN's chairman, said he would ask shareholders at an extraordinary meeting on September 30 to agree that planned new limits on voting rights should cease to apply once a bidder had bought more than 67 per cent of the group's capital.

Previously, he was planning to ask the meeting to make the new voting limits apply up to a ceiling of 90 per cent of BSN's equity, after which level they would be lifted. The planned restrictions would limit holders of shares with single voting rights to vote for 6 per cent of BSN's equity capital, rising to 12 per cent for holders of shares with double voting rights.

Shares in French companies held for two years automatically get double voting rights. BSN is proposing the new curbs to avoid being caught by surprise by this process.

Some of BSN's largest shareholders were irritated by the 90 per cent plan and the Commission des Operations de Bourse (COB), the stock exchange watchdog, has in the past disapproved of excessively restrictive voting curbs. In common with many French companies, BSN also has a "poison pill" under which loyal shareholders would acquire 20 per cent of the equity in the event of a hostile bid. This provision would remain.

France urges closer ties for Renault, Volvo

By William Dawkins

THE FRENCH government has given a political push to the growing co-operation between Renault, the state-owned car maker, and Volvo, its Swedish partner.

Mr Dominique Strauss-Kahn, the industry minister, has called on the pair to go further in their partnership, which began two years ago with an exchange of minority equity stakes. Since then, the pair has pooled the purchasing of some components, share research and development and co-operate in quality control.

Mr Strauss-Kahn said more synergies could be explored and asked Renault and Volvo to "clarify" their relationship by the end of the year. His remarks will be welcomed by the partners, who have been exploring a merger as one of several options for further co-operation, though they have yet to present precise plans to the French government.

Paris has until recently been cautious over considering a Renault-Volvo merger because it would have to table a bill in parliament if Volvo wanted to buy more than 25 per cent of the French car maker. The Swedish group currently owns 20 per cent of Renault and has an option to buy another 5 per cent, while Renault holds an 8.2 per cent stake in Volvo's parent group.

The government has been unwilling to present what could be a controversial merger plan, given Renault's importance as a historic symbol of French industrial policy, in the run-up to the Maastricht referendum. However, a politically opportune moment could arise if there is a calm period after the Maastricht vote and before the start of campaigning for next March's French legislative elections.

Renault is in a strong financial position as it reaps the benefits of several years of cost-cutting measures and a good performance in export markets. However, loss-making Volvo could find it hard, for the moment, to afford the cost of buying more shares in Renault.

Skoda plans to raise DM1.2bn syndicated loan

By Ariane Genillard in Prague

SKODA Automobila, the joint venture between Volkswagen of Germany and Skoda, the Czechoslovak car manufacturer, is planning to raise a DM1.2bn ($857m) syndicated bank loan under the umbrella of the International Finance Corporation.

The deal will be co-arranged by Credit Suisse First Boston, J.P. Morgan, Deutschebank and Dresdnerbank.

It will mark the first time an eastern European corporate borrower attempts to raise a significant sum on western markets and should set a benchmark for similar blue chip foreign-controlled companies in the region.

Mr Hans Meisner of the CSFB banking department in London said the terms of the loan were being negotiated and should shortly be placed privately among banks.

Under a joint-venture agreement Volkswagen bought 31 per cent of Skoda for DM620m and is committed to lift its participation to 70 per cent by 1995.

Rhône-Poulenc to sell additives unit

By Paul Abrahams

RHONE-Poulenc, France's largest chemical group, plans to sell Société Française d'Organao Sythèse, its specialty chemicals subsidiary, to Great Lakes Chemicals group, the Indiana-based company.

Terms were not announced. The subsidiary, which manufactures additives for lubricants and polymers, has a turnover of FFr525m ($107.1m). It employs about 340 at its Paris head office and two production sites at Persan (Val d'Oise) and Catenoy (Oise).

Rhône-Poulenc, which warned last week it would not reach its target of more than 20 per cent earnings growth, said the business was no longer in line with its main strategic orientations.

The sale is part of a Rhône-Poulenc's substantial disposal programme. In February, Mr Jean-René Fourtou, group chairman, said he hoped to raise as much as FFr3bn from disposals this year and between FFr1.5bn and FFr2bn in 1993. The aim is to cut the group's debt to equity ratio from 0.78 at the end of last year to about 0.5 in 1993.

Great Lakes, which specialises in bromochemicals and fuel additives, is expanding rapidly in Europe. Last month it paid $21m for the remaining 50 per cent it did not own of Octel Kuhlmann, a French gasoline additive business, which was a joint-venture with Rhône-Poulenc and Elf Atochem of France.

Sears appoints two board directors

By Nikki Tait in New York

SEARS, Roebuck, the US retail and financial services group which has been attacked by shareholders over a variety of corporate governance issues, has appointed two new board directors.

They are Mr Michael Miles, chairman of Philip Morris, the large cigarette, beer and food manufacturer, and Mr William LaMothe, chairman emeritus of Kellogg, the cereal company. Mr LaMothe retired as chief executive of Kellogg at the end of last year.

The two appointments expand the size of the Sears board from nine members to 11, and is the latest in a series of moves by the company which appear designed to answer some of the complaints levelled against it by investors.

Sears has been under fire from dissident shareholders for several years. In large part, the unhappiness results from the lacklustre performance of the company's large retail operations, and the poor performance of Sears shares.

However, at the last couple of annual meetings, this disquiet has focused on several corporate governance issues – with the dissidents requesting that the roles of chairman and chief executive be split, and directors be elected annually.

At last May's AGM, the dissident motions gained larger-than-expected support, although none was successful. Sears has since made several moves to appease investors.

In June, for example, it approved some additional powers for shareholders.

Chairman of Danish trading group resigns

MR HENNING Sparsoe, chairman of the East Asiatic Company, the Danish trading and shipping group with sales last year of DKr18.8bn ($3.32bn), resigned at an extraordinary meeting on Friday writes Hilary Barnes.

The resignation followed a first-half loss of DKr181m after net extraordinary income of DKr367m, against a first-half net profit last year of DKr82m.

Mr Jens Thorsen, 71, chairman of construction group Monberg & Thorsen, will assume the chairmanship until October 12.

Correction

Savings Bank of Finland

UNION Bank of Finland is negotiating with the Finnish government's bank guarantee fund to buy Skopbank and not Savings Bank of Finland as reported in the FT on September 10. Other parties are also negotiating to acquire Skopbank.

Write-off pushes Sansui into Y19bn loss

By Simon Davies in Hong Kong

SANSUI Electric, the Japanese consumer electronics company and former Polly Peck subsidiary, has announced losses after extraordinary items of Y19.2bn ($154.5bn) in the six months to June. This follows a Y73.2bn loss in 1991.

The latest results were hit by what is expected to be the final big write-off in the company's post-Polly Peck corporate restructuring.

Sansui is still in the red at the operating level, but the interim figures included an extraordinary loss of Y17.2bn, related to the sale of Capetronics, a loss-making manufacturing company sold to Sansui by Polly Peck in 1990.

Hong Kong-listed Semi-Tech (Global) recently purchased 51 per cent of Sansui in a $81m deal, whereby the bulk of the shares were purchased from the administrators of Polly Peck, for a nominal sum.

Polly Peck retains a 20 per cent stake, while the Bank of Tokyo, Sansui's main creditor, has converted some debt for equity to take a stake of close to 5 per cent.

Capetronics was purchased at the height of Japan's 'bubble economy' and on a Japanese price-earnings ratio, according to Sansui's new chairman Mr James Ting. The Taiwan-based manufacturing business was sold so that Sansui could focus on low-cost manufacturing in China, he said.

Despite the dour picture painted by its latest results, Sansui's recent misery could finally be drawing to a close. It has forecast a profit in the second half of the year, due to property disposals; and it should be able to break even at the operating level in 1993, according to Mr Ting.

Its new parent is the former Hong Kong computer manufacturer which launched the take-over and then turnround of Singer, the US sewing machine group. It intends to use Singer to help produce a similar performance for Sansui.

Mr Ting has a simple business plan he is confident will bring it back to profit by 1994. He is proposing to bring the company's quality audio products down to mass market levels, focusing on high-turnover items, such as mini hi-fi units.

Singer's 30,000 distribution outlets will then be used to develop sales. These have already been changed from a narrow focus on sewing machines to a wider range of consumer electronic products.

The second part of the strategy is to pursue Sansui sales in China. "China is in a time warp, as far as this industry is concerned," said Mr Ting. Only recently have the Chinese demonstrated their enormous appetite for televisions and washing machines.

Semi-Tech has enlisted the aid of Hong Kong's largest audio products manufacturer Tomei Holdings, through an equity swap. Tomei is to produce cheap audio products in China and it will also utilise its domestic sales quota for Sansui products.

A Sansui retail network is also planned.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Yields rise on expectations of interest rate increase

NERVOUSNESS about sterling spilled over into the gilt market, forcing a large rise in yields for short-dated bonds amid expectations that the British government might be forced to increase interest rates in the next few weeks.

The focus of investors' concern was the French referendum on Maastricht next Sunday. If this delivers a No vote, upsetting the move to European economic and monetary union, (Emu) then pressures in the exchange rate mechanism (ERM) can be expected to intensify, forcing more funds into the D-Mark out of weak currencies, including sterling.

With the UK government stressing last week it would not devalue the pound, a rise in base rates – now at 10 per cent – might be required to prevent sterling falling through its ERM floor.

That explained why the yield on the short-dated 8¾ per cent treasury bond due in 1997 rose ¼ of a percentage point during the week, closing on Friday night at 9.71 per cent. Its price fell by 1 point to 96⅛.

While short yields were pushed up, few large sellers of the securities were reported. An exception, however, was the Bank of Sweden, which was said to be selling gilts for cash as part of an exercise to put its foreign currency reserves in a more liquid state in case large-scale intervention was required to defend the beleaguered krona.

At the long end of the yield curve, investors such as pension funds and insurance companies were moderate buyers of gilts on optimistic perceptions about the longer term inflation profile. As a result, long gilt yields were depressed marginally.

The degree to which pressure on rising prices is becoming subdued as a result of the long recession was underlined by the latest figures for the retail prices index (RPI). It rose by 3.6 per cent in the year to August, after 3.7 per cent in the 12 months to July. The year-on-year rate stands at its lowest for over four years.

However, it is the shorter term outlook for the pound that worries most gilt investors. Sterling closed on Friday at DM2.79, slightly more than 1 pfennig above its DM2.778 ERM floor. This was even though a stronger dollar eased the overall ERM strains by putting less upward pressure on the German currency. A weak pound inevitably depresses sentiment about gilts partly because of fading interest in the securities by overseas buyers.

One of the main problems for the pound – irrespective of worries about the ERM and Maastricht – is the stalled domestic economy.

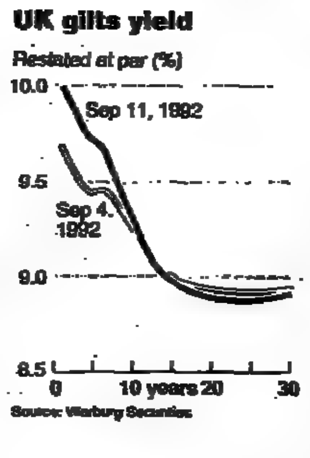
With some commentators suggesting a recovery is unlikely until late 1993 or 1994, investors are unlikely to want to push large volumes of funds into sterling on hopes of a growing economy.

At the same time, the UK's economic weakness greatly magnifies the potential effects of Mr Norman Lamont, the chancellor, being forced to raise base rates to defend sterling's ERM parity. A rise in interest rates – perhaps to 11 or 12 per cent – would cripple industrial and consumer confidence. It would almost certainly further postpone recovery. Thoughts about the dire economic effects of a tightening in monetary policy have inevitably made gilt investors think that a devaluation of sterling, possibly as a part of an ERM-wide realignment, might be on the cards over the next few months, whatever the protestations of the government.

"In normal times, the bad news about the economy, and the sense that inflation is coming down, would be expected to be good news for gilts," said Mr James Barty, an economist at Morgan Greenwell.

"The trouble for gilts is that these are not normal times. The gilt market could do with a few more indications about a recovery."

Peter Marsh



US MONEY AND CREDIT

Weak data fails to indicate recovery

POLITICS and economics are never far apart. But the approaching US presidential election, and the increasingly heated campaigning, now give an added twist to each set of dismal statistics which fails to indicate any meaningful recovery.

Ten days ago, for example, yet another set of poor unemployment figures hit the news wire.

So the bond market was all ears when President George Bush rose to address the Detroit Economic Club last Thursday. Traders fretted that the president, eager to boost his re-election chances, might suddenly become overly open-handed.

After a few jittery minutes, they were able to pack their fears away. The president offered no new measures likely to pump inflationary pressures into the economy, and his one percentage point tax cut proposal was deemed to go little further than his statements to the Republican Convention last month.

The bond markets breathed a collective sigh of relief, and the yield on the benchmark 30-year long bond fell below 7.26 per cent.

It did not, however, return to the depressed 7.21 per cent seen on Tuesday evening, the lowest closing yield registered for more than seven years. This was, at least in part, due to the large number of corporate bond issues which hit the market last week – with some estimates suggesting that between $7.5bn and $8bn-worth of corporate debt was priced during the abbreviated four-day trading period.

Corporate issues tend to depress bond prices, partly because underwriting firms on Wall Street sell off holdings of treasuries in order to give themselves the leeway to hold unsold corporate debt, and partly because investor demand becomes squeezed.

In this particular case, traders said a large number of issues were priced aggressively – that is, offering only a minimal yield advantage over lower-risk treasuries. As a result, dealers were left holding large tranches of unsold stock.

By the end of the week's trading, these technical considerations were still overshadowing the market, and even some extremely low inflation data for August – showing that the producer price index rose just one-tenth of 1 per cent during the month – failed to revive bond prices. The long bond fell by ⅝, and its yield at the end of the week stood at 7.29 per cent.

Such technical blips notwithstanding, most bond market participants are convinced that yet another easing of interest rates is on the cards and that yields have further to fall in the medium term.

Donaldson, Lufkin & Jenrette, for example, is suggesting that the 30-year treasury bond yield could be down to 6.5 per cent by mid-1993.

The reasoning is simple: the lack of consumer confidence, generated in part by employment worries, the extremely low rates of inflation at present, and – against this backdrop – the extraordinarily cautious Federal Reserve policy.

As Mr Robert Brusca, at Nikko Securities, argued to clients last week: "Friday's PPI report for August shows how good inflation's performance has been.

Year-over-year inflation dropped from a 1.7 per cent to 1.5 per cent rate of increase, a decline in inflation's pace of 0.2 percentage points.

"Meanwhile, the Fed has eased by 0.25 percentage points. Thus what the Fed has really done – net – is to ease in real terms by 0.05 percentage points, or 5 basis points".

This argument will probably be reinforced in the coming week, when the consumer price numbers, also for August, are released on Tuesday.

After the very low PPI figure, most analysts are expecting an increase in "core" inflation (excluding food and energy costs) of perhaps 0.2 to 0.3 per cent – a slight uptick from the July levels.

Also on Tuesday's calendar are the August retail sales figures. Leading retailers have already unveiled lacklustre sales figures for the month, although they were quick to blame the relatively late date for the Labor Day holiday, saying that this had pushed some "back-to-school" spending into September.

Still, analysts now expect the overall retail sales numbers to either show a minimal advance, or even a small decline.

Nikki Tait

EUROPEAN BONDS

Lira devaluation to spark volatile trading

TODAY'S promised cut in German interest rates will kick off a week of volatile trading in European government bond markets in the run up the French referendum on the Maastricht treaty. German yields, which were already falling last week as investors switched out of higher yielding paper, could now be set to fall sharply as the ERM moves into a new phase.

With opinion polls suggesting a close finish in the referendum, some analysts suggest that the D-Mark bloc should benefit from either result.

In the event of a No vote, the German bond market is expected to outperform other European markets. Economists say that yesterday's devaluation of the lira could prompt some short covering in Italian bonds and stem the capital outflow into the D-Mark bloc. However, uncertainty about whether the lira has been devalued sufficiently is likely to make investors already in the D-Mark bloc stay put.

A Yes vote, on the other hand, would trigger a rally in the higher-yielding French, Spanish and Ecu bond markets, while the D-Mark bloc would initially be left behind. Some analysts say it would be dangerous to sell high-yielding bonds at current levels.

But since a Yes vote in France would still leave many questions unanswered about the future of the Maastricht treaty, others recommend taking early profits in higher-yielding markets and going overweight in bunds.

However, trading is expected to be volatile this week, since the scale of the damage to the markets in the event of a No vote is unknown.

Apart from the inflow of funds from other markets, the lower yields on bunds also reflect the market's cautious anticipation of a cut in German interest rates. Lower German rates to be announced today would be widely welcomed throughout Europe, and would ease ERM tensions.

German bond yields fell last week, with the yield on the benchmark 8 per cent 2002 bond dropping to 7.82 per cent from 7.74 per cent. This compares with 8.13 per cent at the end of July. Analysts expect this rally to continue, with the near-term range seen at 7.75 to 7.50 per cent.

Yields on shorter maturities showed a bigger drop last week, of around 12 basis points, as investors reveal a greater interest in that part of the yield curve.

Strategists say the drop in German bond yields reflects a growing consensus that whatever the result of the French poll, the Bundesbank will have to compromise on interest rates to prevent the German economy slumping into recession.

Mr George Magnus, director of fixed interest research at SG Warburg Securities, said a change in Bundesbank policy has appeared tantalisingly close, even though, until last night, the central bank had said and done nothing to encourage this view.

Last night's confirmation of what on Friday was no more than wishful thinking should fuel the rally in German bunds but the extent of any rally depends on the size of the cut.

Antonia Sharpe

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 9 3/4 94	[illegible]	[illegible]	[illegible]	[illegible]
ABN 9 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
AETNA LIFE & CAS 7 3/4 16	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 8 5/8 96	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 9 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN EXPRESS ZERO 00	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN GENERAL 9 3/4 95	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN INTL 0 04	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 0 04	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 8 96	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIA 11 95	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 8 1/2 00	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 9 1/4 95	[illegible]	[illegible]	[illegible]	[illegible]
BANK OF TOKYO 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
BARCLAYS JERSEY 10 5/8 95	[illegible]	[illegible]	[illegible]	[illegible]
BASF FIN EUROPE 7 99	[illegible]	[illegible]	[illegible]	[illegible]
BAYER USA 8 1/4 96	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 97	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 3/4 96	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9 2 18	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9 5/8 98	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 9 1/4 95	[illegible]	[illegible]	[illegible]	[illegible]
BNP 8 5/8 94	[illegible]	[illegible]	[illegible]	[illegible]
BOOTS 9 97	[illegible]	[illegible]	[illegible]	[illegible]
BP AMERICA 9 3/4 99	[illegible]	[illegible]	[illegible]	[illegible]
BP CAPITAL 9 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
BPCA FINANCE 8 3/8 98	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH GAS 8 3/8 99	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH TELECOM FIN 8 3/4 99	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH TELECOM FIN 9 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
CAISSE NAT ENERGIE 11 3/4 95	[illegible]	[illegible]	[illegible]	[illegible]
CANADA 9 96	[illegible]	[illegible]	[illegible]	[illegible]
CANADA 10 95	[illegible]	[illegible]	[illegible]	[illegible]
CANADIAN PACIFIC 7 1/2 96	[illegible]	[illegible]	[illegible]	[illegible]
CARIPLO 8 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PRUDENTIAL RLTY SECS 0 99	[illegible]	[illegible]	[illegible]	6.90
QANTAS AIRWAYS 8 5/8 96	[illegible]	[illegible]	[illegible]	5.47
QUEBEC HYDRO 9 01	300	[illegible]	[illegible]	7.08
QUEBEC HYDRO 9 3/4 98	150	[illegible]	[illegible]	[illegible]
QUEBEC PROV 9 98	200	[illegible]	[illegible]	6.39
QUEENSLAND GOVT 10 1/4 95	100	[illegible]	[illegible]	[illegible]
RALSTON PURINA 11 3/4 95	150	[illegible]	[illegible]	[illegible]
REED PUBLISHING 9 5/8 97	150	[illegible]	[illegible]	6.31
SAINSBURY 9 1/8 96	150	[illegible]	[illegible]	[illegible]
SAS 10 99	200	[illegible]	[illegible]	7.45

U.S. DOLLAR STRAIGHT (cont.)	Issued	Bid price	Chg on week	Yield
SAS 10 1/8 95	150	[illegible]	[illegible]	5.00
SAAB 9 1/2 95	[illegible]	[illegible]	[illegible]	[illegible]
SBC FINANCE 7 3/4 96	[illegible]	[illegible]	[illegible]	[illegible]
SEAGRAM CO 8 1/2 96	[illegible]	[illegible]	[illegible]	[illegible]
SEARS EURO TRUST 8 3/4 96	[illegible]	[illegible]	[illegible]	[illegible]
SEARS O/S FIN 0 98	[illegible]	[illegible]	[illegible]	[illegible]
SEARS ROEBUCK EURO 9 3/4 95	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 7 1/4 94	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 9 1/2 98	[illegible]	[illegible]	[illegible]	[illegible]
STATE BK NSW 8 1/2 96	[illegible]	[illegible]	[illegible]	[illegible]
STATOIL 7 5/8 94	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 8 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
SWEDEN 9 1/4 98	[illegible]	[illegible]	[illegible]	[illegible]
SWEDISH EXPORT 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
TAIYO KOBE 7 3/4 94	[illegible]	[illegible]	[illegible]	[illegible]
TOKAI ASIA 11 1/2 95	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO ELEC POWER 8 3/4 96	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO METROPOLIS 8 1/4 96	[illegible]	[illegible]	[illegible]	[illegible]
TOKYO METROPOLIS 9 1/4 94	[illegible]	[illegible]	[illegible]	[illegible]
TOYOTA MOTOR CRED 8 1/2 94	[illegible]	[illegible]	[illegible]	[illegible]
UBS FIN 9 1/8 02	[illegible]	[illegible]	[illegible]	[illegible]
UNILEVER CAP CORP 9 1/4 00	[illegible]	[illegible]	[illegible]	[illegible]
UNION BK FINLAND 8 94	[illegible]	[illegible]	[illegible]	[illegible]
URUGUAY 8 1/4 95	[illegible]	[illegible]	[illegible]	[illegible]
VENEZUELA 9 3/4 96	[illegible]	[illegible]	[illegible]	[illegible]
VICTORIAN PUB AUTH 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
WARNER-LAMBERT 8 1/8 96	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 8 1/8 01	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 8 3/8 99	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 8 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
XEROX CORPN 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
YOKOHAMA 8 01	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.cpn
ALASKA HOUSING 1/10 01	[illegible]	[illegible]	[illegible]	[illegible]
ALLIANCE & LEICS 0.08 94 £	[illegible]	[illegible]	[illegible]	[illegible]
ALLIANCE & LEICS 0.1 95 £	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS (cont.)	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INTER AMER DEV 9 00	300	[illegible]	[illegible]	9.18
IRELAND 6 1/2 99	300	[illegible]	[illegible]	8.11
LUFTHANSA INT FIN 5 7/8 98	500	[illegible]	[illegible]	8.51
NAT BK HUNGARY 10 3/4 98	500	[illegible]	[illegible]	9.23
QUEBEC HYDRO 8 5/8 01	600	[illegible]	[illegible]	10.79
SWEDEN 6 1/8 98	300	[illegible]	[illegible]	8.36
TURKEY 10 3/4 96	300	[illegible]	[illegible]	8.36
WORLD BANK 0 15	500	[illegible]	[illegible]	10.81
WORLD BANK 5 3/4 96	2000	22	[illegible]	6.72
WORLD BANK 8 3/4 00	1250	[illegible]	[illegible]	7.80

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 4 5/8 98	[illegible]	[illegible]	[illegible]	[illegible]
CHUBU ELEC POWER 6 3/4 01	[illegible]	[illegible]	[illegible]	[illegible]
COUNCIL EUROPE 4 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]
EEC 5 1/2 00	[illegible]	[illegible]	[illegible]	[illegible]
EIB 6 1/2 98	[illegible]	[illegible]	[illegible]	[illegible]
ELEC DE FRANCE 7 1/4 06	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EQUITY WARRANTS (cont.)	Expiry	Price	Chg	Prem
MITSUBISHI EST	[illegible]	[illegible]	[illegible]	[illegible]
MITSUI TOATSU CHEM	[illegible]	2	[illegible]	23.98
MORINAGA	[illegible]	[illegible]	[illegible]	[illegible]
NICHIREI CORP	[illegible]	[illegible]	[illegible]	[illegible]
NIPPON COMSYS	[illegible]	[illegible]	[illegible]	[illegible]
NISSHIN STEEL	[illegible]	[illegible]	[illegible]	[illegible]
ROYAL HOTEL	[illegible]	[illegible]	[illegible]	[illegible]
SMC	[illegible]	[illegible]	[illegible]	[illegible]
TAKASHIMAYA	[illegible]	[illegible]	[illegible]	[illegible]
TOYO SASH	05/08/97	[illegible]	[illegible]	[illegible]
YAMANOUCHI PHARM	01/03/94	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn – current coupon
CONVERTIBLE BONDS: US Dollars unless indicated. Prem – percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem – exercise premium over current share price. Bond warrant ex yld – exercise yield at current warrant price.

Closing prices on September 11

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Italy's new tax regime to have widespread repercussions

THE changes to Italy's investment taxation regime, announced last week as part of the government's economic package, will not only shift patterns of investment in Italy, but will have a knock-on effect in several areas of the international capital markets.

Eurobonds issued by some supranational agencies (the World Bank, the European Investment Bank (EIB), the European Coal and Steel Community and the European Atomic Agency) and government and state agencies (the Republic of Italy, Enel, the electricity utility, Crediop, the financial institution, and Ferrovie, the national railway) have lost their tax exemption for Italian residents, and future deals will have withholding tax levied at 12½ per cent. But existing issues remain exempt from withholding tax, even if they continue to be traded.

Prices in existing tax-exempt issues rallied on the news on Friday. The World Bank's global bond issues benefitted most, with the yield spread on its $1.5bn five-year global narrowing from 3 basis points above the five-year treasury to 10 basis points below. The bank's 10-year yen global bonds tightened from 20 basis points to 12 basis points over the 10-year Japanese government bond yield. However, there was concern that the effect of aggressive buying of these issues would "strip all our liquid benchmarks out of the market," one trader said.

Other Eurobonds did not appear to be following these deals to tighter spreads.

The tightening of existing paper should help the World Bank achieve aggressive funding when it launches its next global bond, despite its loss of tax-exempt status. The bank said it may advance its funding programme to take advantage of the shortage of paper. The bank's next offering, a yen global offering totalling at least Y200bn is scheduled for mid-October. But the next dollar global offering, expected in 1993, may be brought forward.

Although the effect will vary from one sector to another, bankers expect costs for the World Bank to rise, in the medium to long term, by around 20 basis points, to about 20 basis points under Libor.

The EIB is likely to suffer a greater increase in funding costs, since it has targetted Italian investors with issues in smaller markets such as the matador bond market. It has frequently achieved funding costs of 75 to 80 basis points under Libor, now also set to rise to around 20 basis points under Libor.

The EIB decided on Friday to pull its Pta10bn issue of floating-rate notes, launched on Wednesday, just hours ahead of the tax change announcement. Although the change did not take effect until Thursday, there was some uncertainty over whether it applied to the launch or the signing of the deal. Trades in the issue, which had been largely placed ahead of the announcement, were cancelled, according to lead manager Banco Bilbao Vizcaya. The EIB is still considering whether to go ahead with a Y50bn deal scheduled for last Thursday. However, dealers said the planned terms of the issue would have to be changed to take account of the new tax regime.

Meanwhile, spreads of Italy's Eurobonds barely tightened on the news. Dealers said concern about Italian credit and the excess supply of Italian paper stifled any rally in Italian paper.

The sizeable repurchase agreement (repo) market is likely to suffer on several fronts. As well as the loss of tax-exempt status for supranational names, the new rules limit companies' ability to deduct the repo costs as a business expense.

Also included in the package is a cut in withholding tax for Italian investors on foreign bonds from 30 per cent to 12.5 per cent, the same as for Italian government bonds. This is expected to encourage Italian institutions to diversify their investments in overseas markets.

However, the new regulations also close a loophole used by some Italian institutions. They will no longer be able to avoid paying withholding tax by "coupon-washing" – farming out bonds when the coupon is due to be paid. In future, taxation will be applied to accrued interest.

● Volume on Italy's new bond futures market, the Mercato Italiano Futures (MIF) reached 10,000 contracts on its first day of trading on Friday.

Tracy Corrigan

SYNDICATED LOANS

Sweden faces a testing time over credit standing

SWEDEN'S credit standing in the international financial community will be tested this week as foreign banks ponder whether to support its Ecu8bn syndicated loan, announced on Friday.

Like the UK the week before, Sweden is borrowing heavily to support its currency in the face of the turmoil in the European exchange rate mechanism (ERM). The success of its deal will be a pointer to other countries which are said also to have considered foreign borrowing to defend their currencies. "If it doesn't go well, other countries will start to get worried about what it will cost them to do the same thing," said one large US bank considering whether to participate in the Swedish deal.

In many ways, the transaction has powerful attractions. Sweden has not come to the international markets since 1989, so its loan will be snatched up by banks wanting to develop their relationship with the country.

It was also generally considered on Friday to be well priced. The yield to participating banks was put by one bank at nearly 20 basis points (0.2 percentage points) over London interbank offered rate (Libor), compared with 10 basis points on the UK deal. Given that the loan is zero-weighted for capital purposes, this was widely seen as a good price for a three-year facility.

However, concerns about Sweden's credit standing overshadowed the loan at the end of last week. The country has a AAA credit rating from Standard & Poor's and a Aa1 rating from Moody's. But after the recent events banks are likely to think hard about increasing their exposure to the country before its economic prospects become clearer.

"There will be credit officers in many banks who have sat up in the past week and said, 'what is happening in Sweden?'" said another big international bank. That could lead banks to freeze their limits to Sweden in the short term, he said. Sweden also drew heavily at the end of last week on two standby banking facilities, totalling $3.4bn, to support its currency.

JP Morgan said it would be approaching the National Debt Office's close relationship banks over the next few days with the aim of putting together a group of lead managers, and it hoped to syndicate the deal among about 30 banks. It added that some banks had already shown an interest in participating.

The loan consists of two parts. The first is an Ecu3bn 364-day loan which will be used immediately, and carries a margin of 10 basis points over Libor. The second part is an Ecu5bn three-year multi-currency revolving credit, with a margin of 18.75 basis points over Libor and a commitment fee of 10 basis points on the undrawn portion.

● The Kingdom of Spain is planning to come to the capital markets this week. It talked to investment bankers in London last week about a $2bn Eurobond issue.

Richard Waters and Sara Webb

Anthony Harris

Tales of disaster and salvation

FOR those who like life to be simple, there are too many possible explanations for the unexpected surge in the dollar at the end of last week. Only the least likely of them could be construed as offering any kind of consolation for the British government for the fact that the dollar's rise left sterling more than ever stranded – the idea that the markets were giving Mr Major's friend President Bush a vote of confidence after his latest tax-cutting speech.

The more plausible explanations are sadder.

In the US, the most significant change was marked not by Mr Bush's speech, but by remarks from Governors Angell and Parry of the Federal Reserve. Both indicated that the lastest US interest rate cut should be the last for some time, which suggests that the Fed is now becoming more worried about the dollar than about the continued weakness of the economy. This postpones any remaining hope of European salvation from rising American demand.

This news might have weakened the dollar still further, on what is now the normal market rule – that it is strong economies which have strong currencies. However, the sad fact is that while optimism about the US simply remains anaemic, hope is rapidly disappearing everywhere else.

It was surely the news of crisis in Scandinavia and Italy, riots in Germany, slump in Britain and falling industrial confidence in Japan which drove the dollar up. The US may look waterlogged, but if you know a better hole...

The stalest of all bull markets is that in European integration. Though it is easy to forget, it is not very long since the US business press was full of learned discussions of the European disease. Then the US economy went sour, the Japanese market looked overdone, and 1992 loomed. For a couple of years, Europe was seen as a nascent superpower; but now we have crisis, and what was seen as a source of strength looks like a fatal weakness. Indeed, for a rapidly growing minority of market analysts, European disintegration looks not so much a disaster as a prospective relief.

The markets should have foreseen the pains of convergence. All systems become brittle if they are too rigid; and in any case, we have been this way before. The Bretton Woods system, now remembered as a paradise of low inflation and steady growth, was denounced in its time as a deflationary plot. When the IMF finally achieved convergence, the world went into a simultaneous boom and blew the lid off the system.

Regional convergence should not be so accident-prone, because floating exchange rates outside the system allow for some automatic adjustment; they are now supporting US growth as Europe slows down.

All the same, convergence is painful to achieve, and requires careful management even when it is achieved. Watching the mess we are making of the first stage (partly because the Germans no longer seem to want it much) it is hard to hold much hope for stage two; and the markets have clearly lost all faith in the whole business.

All this looks like a catastrophe for Britain, and especially for Mr John Major; but I am not so sure. Pessimists might try to find a copy of Richard Hughes's prophetic inter-war novel In Hazard. This concerns a ship (very obviously the ship of state) in a storm. Every effort by the skipper to meet the crisis makes things worse; but every apparent disaster proves a salvation. At the climax, the bridge and funnel are carried away in a huge wave; so the ship does not capsize.

Mr Major behaves ominously like Mr Hughes's skipper; and he will certainly look silly if the ERM superstructure is battered to bits.

Yet Britain might have a very promising long-term future in a more flexibly constructed Europe. The present slump would still damage the economy and the currency, but it would kill inflation for a long time. Thereafter Britain's long-term competitive advantage could promise a prolonged growth boom.

It is just a matter of not drowning first.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Aux.Crdt.Foncier Fr(a)‡†	200	2002	10	(a)	100.10	UBS Phillips and Drew	-
SBAB(b)‡†	100	2002	10	(b)	99.80	Kidder Peabody	-
Export Dev.Corp.†	300	2004	12	6¼	99.22	CSFB	6.843
Council of Europe†	250	1999	7	6⅛	99.47	UBS P&D/Daiwa Eur	6.221
Deutsche Bank Fin.(d)‡†	150	2002	10	(d)	100.30	Deutsche Bank AG	-
LKB Baden Wurt'berg Fin.†	500	2002	10	6.625	99.26	J.P.Morgan Secs.	6.729
Deutsche Bank Fin.NV(e)‡†	150	2002	10	(e)	100.30	Deutsche Bank AG	-
MBL Fin.(Curacao) NV(f)†	65	2007	15	7¼	100	Mitsubishi Finance	7.250
MBL Fin.(Curacao) NV(g)†	135	2006	13.5	7⅛	100	Mitsubishi Finance	7.118
Daiwa Intl Finance(k)†	104	2002	10	(k)	100	Daiwa Bank Capl Mngt	6.25
Eurofima(l)‡†	50	2002	10	(l)	100.32	SBC	-
MTBC Fin Aruba AEC(m)‡†	240	2002	10	(m)	100	Salomon/M'bishi Tst	-
Credit Local de France(n)‡†	100	2002	10	(n)	99.75	Kidder Peabody Intl.	-
CANADIAN DOLLARS							
Deutsche Bank Fin.(c)‡†	50	2002	10	(c)	100.20	Deutsche Bank AG	-
SECV(h)†	200	2002	10	7⅞	100.98	Merrill Lynch Intl	7.738
AUSTRALIAN DOLLARS							
Province de Quebec†	235	2002	10	9½	100.98	Merrill Lynch Intl	9.353
SWISS FRANCS							
Republic of Finland†	300	1999	7	7¼	101	UBS	7.084
OKB♦	100	2002	10	7	103.50	Wirtschafts Und Privat	6.513
D-MARKS							
CSFB Fin.BV Neth.(j)†	200	1997	5	9	101⅞	CSFB Effectenbank	8.477
DANISH KRONE							
Fin.for Danish Industry†	150	1995	3	10⅛	101¼	Kredietbank NV	9.922
LUXEMBOURG FRANCS							
Credito Romagnolo★★†	600	1995	3	9¾	102.20	Kredietbank	8.728

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Coupon pays 12.5bp below 6 month Libor. Coupon payable semi-annually. Minimum coupon rate 5%, maximum 10%. Subordinated issue. b) Coupon pays US$ 6 month Libid less 12.5bp. Coupon payable semi-annually. Subordinated issue. Minimum coupon rate 5.25%, maximum 10%. Borrowers full name, The Swedish National Housing Finance Corp. c) Coupon pays 30bp below 3 month Libor. Fungible with existing C$225m issue from 24/9/1992. Minimum coupon 5.875%, maximum 8.90%. d) Coupon pays ⅛ below 6 month Libor. Minimum coupon 5%, maximum 8⅛%. e) Coupon pays ⅛ below 6 month Libor Minimum coupon 5%, maximum 8⅛%. f) Tranche A of $220m issue. Callable at par on or after 29/9/2002. g) Tranche B of $220m issue. Callable at par on or after 18/3/2001. h) Borrowers full name State Electricity Commission of Victoria. Non-callable. j) Amount increased from DM150m. k) Coupon pays 6¼% until 24/9/1997, then 65bp above 6-month Libor. Subordinated issue. Callable on 24/9/1997 or thereafter. l) Coupon pays 2.55% below 3-month D-Mark Libor and is payable quarterly in US Dollars. Minimum coupon 5⅛%. Fungible with existing $200m issue launched on 13/10/92. m) Coupon pays 55bp above 6-month Libor until September 1997 and 75bp above 6-month Libor thereafter. Subordinated issue. Callable at par after September 1997 on coupon dates. n) Coupon pays 25bp below 6-month D-Mark Libor and is payable semi-annually in US Dollars. Initial coupon of 7.385% runs from 7/10/92 to 7/4/93. Minimum 5⅛%. Note: Yields calculated on ISMA basis.

WORLD STOCK MARKETS

AUSTRIA
[illegible]

BELGIUM/LUXEMBOURG
[illegible]

DENMARK
[illegible]

FINLAND
[illegible]

FRANCE
[illegible]

FRANCE (continued)
[illegible]

GERMANY
[illegible]

GERMANY (continued)
[illegible]

ITALY
[illegible]

NETHERLANDS (continued)
[illegible]

NORWAY
[illegible]

SPAIN
[illegible]

SWEDEN
[illegible]

SWEDEN (continued)
[illegible]

SWITZERLAND
[illegible]

SOUTH AFRICA
[illegible]

AUSTRALIA
[illegible]

AUSTRALIA (continued)
[illegible]

HONG KONG
[illegible]

MALAYSIA
[illegible]

SINGAPORE
[illegible]

JAPAN
[illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. [illegible]

CANADA

TORONTO

4 pm close September 11

Quotations in cents unless marked $

[illegible]

MONTREAL

4 pm close September 11

[illegible]

INDICES

NEW YORK DOW JONES
[illegible]

STANDARD AND POOR'S
[illegible]

NEW YORK ACTIVE STOCKS
[illegible]

TRADING ACTIVITY
[illegible]

CANADA TORONTO
[illegible]

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and ... Toronto indices based 1975 and Montreal Portfolio 4/1/... Utilities, Financial and Transportation. (c) Closed. (u) ... theoretical day's highs and lows are the averages of the highest ... by each stock; whereas the actual day's highs and lows ... highest and lowest values that the index has reached during the ... previous day's).

Saturday September 5: Taiwan Weighted Price: ... Korea Comp ... Subject to official recalculation.

Base values of all indices are 100 except: Austria Traded, 961.20, ... and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 ... Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday, September 11, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Green Cross	1.1m	1,720	-60	Onoda Cement	0.7m	540	-7
Tokyu Corp	1.1m	659	+25	Nippon Flr Mills	0.6m	690	-60
Meiji Milk	1.1m	1,060	-40	Ishi-Har Hvy Ind	0.6m	500	-17
Sumitomo Cmnl	0.7m	659		Sumitomo Metal	0.5m	273	-4
Kelsei Electric	0.7m	630	-27	Showa Denko	0.5m	305	-4

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هكذا من الأصل

FT MANAGED FUNDS SERVICE

● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trust. Calls charged at 36p/minute cheap rate and 48p/minute at all other times

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible] This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. [illegible]

TIME: [illegible] The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. [illegible]

HISTORIC PRICING: The letter H denotes [illegible]

FORWARD PRICING: The letter F denotes [illegible]

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

[illegible]
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-[illegible]

FT MANAGED FUNDS SERVICE

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Societe Generale Touche Remnant (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250
4 Hourly Pricing – 12 Noon Historic

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Gwth	5¼	51.07	51.07	54.62	0	41525
Eur Sp Sits Acc	5¼	35.54	35.54	37.90	0	41526
Eur Sp Sits Inc	5¼	34.05	34.05	36.31	0	41527
Far East Opps Inc	5¼	19.32	19.32	20.64	0	41668
Far East Opps Acc	5¼	19.80	19.80	21.36	0	41685
General Growth	5¼	75.64	75.64	81.46	3.81	41528
General Growth Acc	5¼	76.91	76.91	82.82	3.81	47438
Global Tech	5¼	77.10	77.10	83.35	0	41529
Income Growth	5¼	73.56	73.56	79.27	5.66	41530
Income Growth Acc	5¼	73.56	73.56	79.27	5.66	–
Income Monthly	5¼	42.80	42.80	45.77	7.00	41531
Japan Growth	5¼	49.72	49.72	52.84	0	41532
Overseas Growth	5¼	53.03	53.03	56.52	0	41533
Smaller Cos	5¼	52.23	52.23	56.16	3.49	41534
Special Opps	5¼	67.42	67.42	72.49	3.73	41535
Wwide Sp Sit Acc	5¼	30.57	30.57	33.09	0	41538
Wwide Sp Sit Inc	5¼	30.59	30.59	33.01	0	41539
SGTR Pension Portfolio						
American Growth	6	30.59	31.08	32.95	–	46977
Eur Sp Sits	6	28.58	28.96	30.69	–	46978
General Growth	6	[illegible]	[illegible]	[illegible]	–	[illegible]
Global Tech	6	30.20	31.02	32.88	–	[illegible]
Income Growth	6	24.67	25.25	26.77	–	46981
Japan Growth	6	15.56	15.71	16.66	–	46982
Managed Equity	6				–	[illegible]
Overseas Growth	6	22.98	23.27	24.66	–	46984
Smaller Cos	6	13.30	13.59	14.40	–	46985
Special Opps	6	15.50	15.83	16.78	–	46987
Stlg Liquidity	6	33.81	34.41	35.84	–	46986
Wwide Sp Sits	6	24.85	25.55	27.09	–	46988

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298422

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Cash	1	50.85	50.85	51.35	10.00	[illegible]

Edinburgh Fund Mngrs PLC
Exempt Funds
Managed Sep 9
Japan Sep 10
Sm Jap Cos Sep 11
Latin American Sep 8

Fidelity Investment Services Ltd
Exempt American Portfolio
Mngd Pens P'folio

Fledgeling Charity Portfolio
25 Copthall Avenue EC2R 7DR
UK Equity
Bond

Robert Fleming Asset Mngmt Ltd
Am Exempt
Gen Exempt
Jap Exempt
Pacific Exempt
Cont Euro Exempt

Foreign & Colonial Unit Management Ltd
Balanced Acc Sep 8
Balanced Inc Sep 8

Funds in Court*
Capital Aug 27
Gross Aug 27
High Yield Aug 27

Henderson Unit Trust Management Ltd

Life Association of Scotland
113 Dundas St, Edinburgh EH3 5EB 031-550 5000
LAS Investment Assurance

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	249.7	262.6	–	42674
UK Equity	415.8	437.7	–	42675
Property	279.5	294.6	–	42676
Money Market	233.1	245.4	–	42677
Fixed Interest	272.6	287.0	–	42678
Japan	228.9	241.0	–	42680
North America	116.5	122.7	–	42681
International	193.6	203.8	–	42682

NEL Britannia Assce Co Ltd – Contd.
Specialist Funds

	Bid Price	Offer Price	Yield Gross	City-line
Barings Convertible	97.5	102.6	–	45279
Barings Eastern	106.7	112.3	–	45280
Barings Equity Income	83.6	88.0	–	45282
Barings European Growth	103.4	108.8	–	45281
Barings German Growth	96.6	101.7	–	45283
Barings Japan Growth	84.8	89.3	–	45284
Barings UK Smllr Cos	79.4	83.6	–	45285
Flemings 1992 Euro Opps	96.2	101.3	–	45347
Fidelity American	106.7	112.3	–	45286

INSURANCES

AXA Equity & Law Life Assce

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd (1000)F

Cent. Bd. of Fin. of Church of England

Charinco/Charishare

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fd

Charity Fixed Int Fd/Charity Equity Fd

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Pearl Assurance (Unit Funds) Ltd

Lynch Wood, Peterborough PE2 6FY 0733-470470

	Bid Price	Offer Price	Yield Gross	City-line
Property Dist. (Gross)	135.1	142.2	-	43235
Property Acc. (Gross)	257.5	271.0	-	43236
Equity (Gross)	793.5	835.2	-	43237
Managed (Gross)	571.8	601.9	-	43238
Property Acc. (Net)	123.1	129.5	-	43239
Equity (Net)	185.7	195.4	-	43240
Adventurous Managed	86.8	91.4	-	41201
Managed (Net)	177.3	186.6	-	43241
Cautious Managed	96.0	101.1	-	41202
International (Net)	154.5	162.6	-	43242
Gilt & Fixed Interest	142.4	149.9	-	43243
Money Fund	141.7	149.1	-	43244
Mixed Fund (Cap)	108.7	114.5	-	46550
Mixed Fund (Acc)	113.5	119.5	-	46548
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	621.3	654.1	-	43245
Ret Man (Series 2)	210.7	221.8	-	43246
Ret Cash	200.8	211.4	-	43247
Pen Mixed Fd (Cap)	119.9	126.3	-	46509
Pen Mixed Fd (Acc)	125.1	131.7	-	46558
Pens Stlg Fd (Cap)	104.7	110.3	-	46661
Pens Stlg Fd (Acc)	109.4	115.2	-	46540

Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	122.0	129.0	-	43285
[illegible]	225.0	237.0	-	43286
Balanced	243.0	256.0	-	43287
European	200.0	211.0	-	43289
GT Managed	170.0	179.0	-	43290
Gartmore Mngd.	113.0	119.0	-	43291
German	122.0	129.0	-	43292
Gilt	162.0	171.0	-	43293
Global	35.0	37.0	-	46834
International Equity	178.0	188.0	-	43295
Japan	148.0	156.0	-	43296
Leisure	47.0	50.0	-	40526
Managed	38.0	40.0	-	43297
Property	286.0	302.0	-	43298
UK Equity	216.0	228.0	-	43300

Prudential Corporate Pension Funds

Prudential Individual Life Funds

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Prosperity Life Assurance Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc. Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Individual Pension Funds

Reliance Mutual

J Rothschild Assurance PLC

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Amicable—Contd.

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance plc

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Alliance Group—Contd.

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Swiss Pioneer Life Plc

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Windsor Life Assur Co Ltd-Contd.

Woolwich Life Assurance Co Ltd

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Allianz Intl Assurance (Bermuda) Ltd

Albany International Assurance Ltd

Royal Life Intl. Ltd

Royal Life Intl. Ltd—Contd.

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

Bain Clarkson Asset Management

C F S Financial Mngmt

Capital Trust Financial Management

Chase de Vere PLC

Fairmount Financial Services Ltd

Eagle Star Intl Financial Services

Independent Financial Group PLC

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Offshore Fd Mgrs Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Fidelity Money Funds—Contd.

Lloyd George Management

Newport Investment Management

Orion Fund Limited

CANADA (SIB RECOGNISED)

GBC Asset Management

GUERNSEY (SIB RECOGNISED)

AIB Grofund Inv Managers (Guernsey) Ltd

Adams & Neville Fd Mngmt (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Equitable International Fund Managers Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

Adams & Neville Fund Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

Credit Suisse Asset Mngmt (Guernsey) Ltd

Dontrust Management (Guernsey) Ltd

Hambros Fund Managers (CI) Ltd

Hartleville Fund Managers (Guernsey) Ltd

Henderson Admin. (Guernsey)

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Managers (CI) Ltd

Merrill Lynch Guernsey

Nikko Capital Mngt (Europe) Ltd

Quilter International Management Ltd

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

U.S. Treasury Securities Fund Ltd

Rudolf Wolff Capital Management Ltd

Yamaichi Capital Mngmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

GAM Fund Management Ltd (u)

Hafnia Prolific International Mngmt Ltd

Morgan Grenfell Investment Funds Ltd

Swiss Life Investment Fund (u)

IRELAND (REGULATED)(**)

Bank of Ireland Unit Managers Ltd

Baring International Fd Mngrs (Ireland) Ltd

Baring Mutual Fund Mngrs (Ireland) Ltd

Federated International Funds Plc

GT Asset Management (Ireland) Ltd

Genesis Portfolio Managers Limited

Hambros Fund Managers (Ireland) Ltd

Irish Life International Fd Mngrs Ltd

Morgan Grenfell Fund Mngrs (Ireland) Ltd

Sanwa International (Ireland) Plc

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs (1600)F

Asset Global Funds Ltd (1200)

CML Fund Managers (IoM)

For Equity & Law see AXA Equity & Law

FT MANAGED FUNDS SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Gartmore Fund Managers (IoM)						
PO Box 32, Douglas, IoM 0624 627610						
Intl Grth	5¼	457 1	457 1	490.5	0 9	45095
Leopold Joseph Fund Mngrs (IoM) Ltd						
PO Box 52 Athol St Douglas IoM 0624 661020						
L.J. International	5¼	84.45	84.45	90.77	–	44684
Mercury Fund Managers IoM Ltd						
11 Hill Street, Douglas, IoM 0624 662255						
Merc IoM Fund	5	96.05	96.05	102 4	6.5	45970
Merc Intl Bond	5	51.27	51.27	53.89	7.9	45971
Sun Life Management (IoM) Ltd						
PO Box 178, Douglas IoM 0624 622444						
Secure High Income	6	£1.030	1.030	1 104	8 15	47486
Unibank Scandinavian Fund Ltd						
19-21, Circular Rd, Douglas, IoM 0624 629420						
Scandinavia Fd	5	–	116 96	124 61	1 0	45223

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
ATC Fund Management (SG) Ltd				
SG International	$10 81		–	45669
AXA Equity & Law Intl Fund Mgs				
European Equity	141 48	148.90	–	44904
Far Eastern Equity	$2.2991	2 4198	–	44905
North Amer Equity	$1 7185	1 8087	–	44906
UK Equity	146.89	154 60	–	44907
Global Equity	102.69	108 08	–	44908
UK Gilt & Fxd Int.	99 85	105 09	–	44909
Dollar Deposit	50 9809		–	44911

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Equitilink International Mngt Ltd						
First Aust Prime Inc Inv Co Ltd NAV Sep 10 C$12.58xd						
First Aust Prime Inc Inv Co Ltd NAV Sep 10 US$10 32xd						
NAV Diluted to reflect exercise of all Wrrts C$12 39xd US$10 17xd						
Fidelity Investment (CI) Ltd						
Sterling American		£2.506	2.638		–	44979
Fleming Group						
Robert Fleming Management (Jersey) Ltd						
Creditanstalt Inv Cert Ltd			99 46		–	–
Deutschland Inv Co NAV			DM16 53		–	45896
Foreign & Colonial Mngmt (Jersey) Ltd						
Hypo Foreign & Colonial Reserve Asset Fd Ltd						
US$ Cash			$10 82		–	45005
Sterling Cash			£12.25		–	45007
US$ Bonds			$15 62		–	45008
Multicurrency Bonds			$21 34		–	45009
Sterling Bonds			£13 38		–	45010
D Mark Bonds			DM10 75		–	45011
Ecu Bonds			Ecu11.48		–	45013
UK Equities			£9 62		–	45014
US Equities			$16.66		–	45015
Japanese Equities			Y640		–	45016
Contl Euro Equities			DM15.30		–	45017
UK Negative Equities			£14 00		–	–
US Negative Eq.			$9 98		–	–
Japanese Negative Eq.			Y1000		–	–
Cont Eur Negative Eqs			DM–		–	–
UK Geared Equities			£9 49		–	–
US Geared Equities			$–		–	–
Japanese Geared Eqs.			Y1143		–	–
Contl Euro Geared Eqs.			DM9 96		–	–
Gold			$10 27		–	–
Protected Capital Plan			–			
John Govett Management (Jersey) Ltd						

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Midland Internatnl Circuit Fund SICAV(a)						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier Jersey 0534 606000						

	Bid Price	Offer Price	Yield Gross	City-line
Europe Value Fund (a)				
NAV	$9 90		–	47066
Fidelity Intl Inv Mngt (Luxembourg) SA				
Fidelity Investment (CI) Ltd				
Aetna Malaysian Growth Fd (Cayman) Ltd				
Alliance Capital				
Global Asset Management				
North Star Fund Managers—Contd.				
Northfield International Ltd				

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

هكذا من الأصل

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Awaiting the French

TRADING in most of the currency crosses is certain to be volatile in the remaining days before Sunday's French referendum on the Maastricht treaty, *writes James Blitz.*

UK clearing bank base lending rate 10 per cent from May 5, 1992

By the end of last week, several dealers said that the immediate outlook for the dollar and the European crosses was far from certain. The dollar staged a recovery to over DM1.45 in US trading on Friday. But the currency's strength will be well tested by a host of economic indicators for August this week, including tomorrow's retail sales figure and the industrial production figures on Wednesday. "These numbers are likely to underline that the US economy is in a weak state," said Mr Gerard Lyons, chief economist at DKB International, in London.

One factor supporting the dollar, however, may be speculation over the outcome of the meeting of finance ministers from the Group of Seven leading industrial nations in Washington on Saturday. An unnamed Japanese official suggested last week that the meeting could draw up plans for more active intervention in currency markets to limit the power of the D-Mark.

In the European exchange rate mechanism, pressure is likely to continue on both the Italian lira and sterling. Few dealers would expect the Italians to devalue their currency before the outcome of the referendum is known. But pressure on the lira remains intense and the currency remains close to its ERM floor against the D-Mark of L765.4. The pound may be affected by the August retail sales figures on Wednesday. But sterling is supported by a recently-acquired Ecu10bn borrowing facility which the UK government may convert into pounds this week.

£ IN NEW YORK

Sep.11	Close	Previous Close
£ Spot	1.9205-1.9215	1.9575-1.9585
1 month	1.15-1.13pm	1.15-1.13pm
3 months	3.52-3.49pm	3.53-3.50pm
12 months	13.0-12.9pm	13.1-13.0pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

Treasury Bills (sell); one-month 9 11/32 per cent; three months 9 11/32 per cent; six months 9 11/32 per cent; Bank Bills (sell): one-month 9 1/4 per cent; three months 9 11/32 per cent; Treasury Bills: Average tender rate of discount 9.6665. ECGD Fixed Rate Sterling Export Finance. Make up day August 28, 1992. Agreed rates for period Sep. 23, 1992 to October 25, 1992, Scheme I: 11.38 p.c., Schemes II & III: 11.66 p.c. Reference rate for period August 1, 1992 to August 28, 1992, Scheme IV&V: 10.379 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10 1/2 from September 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 6 1/2 per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9 1/2 per cent; nine-twelve months 8 1/2 per cent; Under £100,000 7 per cent from May 6, 1992. Deposits withdrawn for cash 5 per cent.

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Sep	Calls Oct	Calls Nov	Calls Dec	Puts Sep	Puts Oct	Puts Nov	Puts Dec
1.875	3.00	3.97	6.45	6.70	-	1.99	3.30	4.44
1.900	2.60	4.28	4.94	5.27	-	2.90	4.42	5.68
1.925	0.56	3.03	3.72	4.09	0.10	4.17	5.81	7.13
1.950	0.05	2.10	2.75	3.13	2.36	6.76	7.42	8.73
1.975	-	1.38	2.03	2.39	4.76	7.05	9.14	10.51
2.000	-	0.86	1.43	1.78	7.21	9.50	11.07	12.42
2.025	-	0.31	0.96	1.29	9.71	11.65	13.13	14.46

Previous day's open int: Calls 460,439 Puts 598,480 (All currencies)
Previous day's volume: Calls 29,922 Puts 28,597 (All currencies)

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate compounded to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Crd: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	Sept 11	Sept 10	Sept 9	Sept 8	Sept 7	Sept 4	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.88	88.91	88.58	88.98	89.46	89.38	89.75	85.11	127.4	49.18
Fixed Interest	105.48	105.98	104.90	105.34	105.60	105.44	106.35	97.16	106.35	50.53
Ordinary	1729.9	1707.4	1696.7	1710.5	1733.4	1729.0	2149.7	1670.0	2149.7	49.4
Gold Mines	66.0	66.0	68.6	68.6	72.9	74.5	160.6	65.0	734.7	43.5
FT Act All-Share	1118.91	1105.69	1100.59	1106.48	1120.50	1118.19	1328.38	987.46	1326.38	61.92
FT-SE 100	2370.9	2340.5	2327.5	2337.7	2372.2	2362.2	2737.8	2281.0	2737.8	986.9
FT-SE Eurotrack 100	1033.67	1027.59	1021.42	1029.38	1032.28	1029.27	1199.58	993.01	1199.58	900.45
FT-SE Eurotrack 200	1076.33	1067.55	1059.56	1068.61	1074.64	1073.24	1248.79	1029.56	1248.79	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

BASE LENDING RATES

[illegible]

● Members of British Merchant Banking & Securities Houses Association.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 11 1992 US Dollar Index	% chg ($) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	THURSDAY SEPTEMBER 10 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992 High	1992 Low	Year ago (approx)
Australia (68)	127.96	−15.2	98.59	100.45	96.45	117.31	−11.2	4.27	125.69	94.25	97.72	92.17	115.82	163.69	124.36	151.35
Austria (19)	152.34	−8.5	117.39	119.61	114.85	114.04	−13.1	2.56	155.56	116.66	120.95	114.08	113.81	186.70	139.27	183.46
Belgium (42)	141.27	−2.1	108.86	110.90	106.49	104.17	−6.4	5.91	144.66	108.48	112.47	106.08	103.64	152.27	135.87	131.00
Canada (114)	124.65	−8.5	96.05	97.86	93.96	110.30	−3.4	3.15	125.46	94.09	97.54	92.00	110.61	142.12	124.32	136.75
Denmark (33)	208.23	−22.1	160.46	163.48	156.96	158.67	−26.1	1.79	214.63	160.98	166.88	157.39	159.39	273.94	208.23	257.49
Finland (15)	54.05	−30.7	41.65	42.43	40.74	51.04	−24.6	2.77	53.85	40.39	41.87	39.49	50.94	89.80	53.09	94.75
France (102)	161.01	+7.0	124.07	126.40	121.37	124.64	+1.9	3.60	162.93	122.18	126.67	119.47	122.93	168.75	148.06	142.90
Germany (64)	114.75	−2.2	88.42	90.10	86.50	86.50	−6.5	2.65	117.27	87.94	91.19	85.99	85.99	129.69	114.42	111.46
Hong Kong (53)	228.12	+29.3	175.78	179.09	171.98	226.38	+28.5	3.73	231.70	173.76	180.14	169.92	229.93	259.55	176.36	165.52
Ireland (16)	151.00	−10.0	116.35	118.55	113.83	115.73	−14.5	4.57	156.16	117.11	121.42	114.51	116.86	173.71	151.00	162.62
Italy (78)	57.23	−24.1	44.10	44.93	43.14	47.43	−26.7	4.40	59.95	44.96	46.61	43.96	48.33	80.86	57.23	72.70
Japan (473)	110.32	−18.8	85.01	86.61	83.18	86.61	−19.3	0.98	115.34	86.49	89.67	84.59	89.67	140.95	87.27	131.72
Malaysia (69)	238.40	+11.3	183.71	187.16	179.71	229.36	+2.2	2.79	239.52	179.62	186.22	175.64	230.11	250.47	212.49	203.89
Mexico (18)	1213.33	−12.8	934.97	952.57	914.67	4088.56	−11.6	1.47	1249.08	936.71	971.16	915.97	4178.28	1789.77	1213.33	1226.36
Netherland (25)	162.09	+6.2	124.90	127.26	122.20	120.92	+1.5	4.64	164.65	123.47	128.01	120.74	119.52	167.29	147.88	141.91
New Zealand (14)	42.33	−9.9	32.62	33.24	31.91	41.30	−10.5	5.50	41.93	31.45	32.61	30.75	40.97	48.52	41.90	47.08
Norway (22)	142.97	−20.1	110.12	112.20	107.73	110.51	−23.7	2.19	143.04	107.26	111.21	104.89	108.62	192.95	136.40	203.67
Singapore (38)	191.87	−12.7	147.85	150.64	144.64	141.12	−14.0	2.35	192.60	144.43	149.75	141.23	141.47	229.63	180.71	197.58
South Africa (61)	179.30	−28.0	138.16	140.76	135.16	149.73	−13.4	3.40	175.15	131.35	136.18	128.44	149.11	263.60	175.15	246.87
Spain (46)	136.25	−12.9	104.99	106.97	102.71	97.18	−15.2	6.15	139.21	104.40	108.24	102.09	96.50	161.72	133.79	155.04
Sweden (30)	167.49	−7.5	129.07	131.50	126.27	131.54	−11.5	3.13	169.58	127.17	131.85	124.36	129.66	200.28	167.49	199.66
Switzerland (60)	114.32	+13.9	88.09	89.76	86.19	91.25	+8.2	2.35	116.51	87.38	90.60	85.45	90.22	117.73	95.99	95.36
United Kingdom (228)	179.56	−3.1	138.37	140.96	135.35	138.37	−5.8	5.32	182.13	136.58	141.59	133.54	136.58	200.07	165.85	182.90
USA (522)	171.07	+0.7	131.82	134.31	128.96	171.07	+0.7	2.97	171.06	128.28	133.01	125.45	171.06	173.10	160.92	155.61
Europe (782)	144.42	−2.2	111.28	113.38	108.87	110.59	−5.9	4.32	146.98	110.22	114.28	107.79	109.52	156.88	139.31	143.32
Nordic (100)	153.85	−16.3	118.55	120.79	115.98	115.23	−19.9	2.60	156.51	117.37	121.69	114.77	114.30	188.52	153.85	191.67
Pacific Basin (715)	114.47	−16.5	88.21	89.87	86.30	91.47	−16.7	1.33	119.03	89.26	92.55	87.29	94.33	141.97	93.70	132.94
Euro-Pacific (1497)	126.58	−10.7	97.54	99.37	95.42	99.26	−12.7	2.71	130.34	97.74	101.33	95.57	100.47	145.21	113.80	137.39
North America (636)	168.16	+0.2	129.58	132.04	126.79	166.93	+0.5	2.98	168.21	126.15	130.80	123.37	166.95	170.31	158.70	154.37
Europe Ex. UK (554)	123.15	−1.6	94.90	96.70	92.88	94.66	−6.9	3.59	125.65	94.23	97.71	92.16	93.97	132.98	121.81	119.90
Pacific Ex. Japan (242)	155.14	+3.4	119.54	121.81	116.96	139.64	+3.7	3.75	155.20	116.39	120.69	113.82	139.91	175.31	149.00	144.95
World Ex. US (1690)	127.69	−11.0	98.40	100.26	96.26	101.18	−12.3	2.72	131.27	98.44	102.07	96.27	102.36	146.91	116.18	139.18
World Ex. UK (1984)	137.73	−6.9	106.13	108.14	103.84	121.05	−7.4	2.52	140.06	105.03	108.90	102.72	122.20	150.58	127.21	139.96
World Ex. So. Af. (2151)	141.18	−6.3	108.79	110.85	106.44	122.34	−7.3	2.82	143.59	107.68	111.65	105.30	123.21	153.05	130.04	143.00
World Ex. Japan (1739)	159.10	−1.1	122.60	124.92	119.95	143.32	−2.0	3.48	160.10	120.08	124.49	117.42	142.86	165.40	153.20	151.39
The World Index (2212)	141.35	−6.6	108.92	110.98	106.57	122.62	−7.3	2.82	143.70	107.77	111.73	105.39	123.48	153.70	130.66	143.68

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes during the week ending 11/9/92: Deletions: Fischer (George) (P.C.) (Switzerland), Landis & Gyr (P.C.) (Switzerland). Uni Storebrand Free (Norway) and Valenciana Cementos (Spain).

LONDON SHARE SERVICE

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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هكذا من الأصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Boulder Gold (Section: Mines/Australian), Decora Inds. (Americans), Jupiter Euro. Inv. Zero Div. Pf., (Inv. Trusts), Telegraph (Media) and Wah Kwong (Transport).

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Annual subscription £250.00 stg.
Call +44 71-925 2128 for more details.

4 pm close September 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11⅞	AAR Corp	0.48	4.0	18	581	12	d11⅞	11⅞	-¼
26	18	A L Labs A x	0.18	0.8	61	218	23	22¾	22¾	-¼
68⅞	52⅝	AMP Inc	1.52	2.5	23	1084	60¼	59⅞	59⅞	+⅛
80¼	55	AMR				225329	61⅛	60⅝	60⅞	-⅜
2⅝	1⅛	ARX			18	42	1½	1½	1½	-⅛
63½	33⅞	ASA	2.00	5.9	22	376	34¼	d33⅞	34	-⅛
34¼	26⅛	Abbott Lab	0.60	2.0	21	4651	30½	30⅛	30⅜	+⅛
13⅞	11⅞	Abitibi Pr	0.50	4.1	8	2	12¼	12¼	12¼	
11⅝	10⅛	ACM Gvt In x	1.08	9.4		216	11⅜	11¼	11¼	
10⅞	9⅛	ACM GvOpp x	0.91	9.1		70	10	9⅞	10	+⅛
9⅝	8½	ACM Gvt Sp x	0.88	9.2		318	u9⅝	9½	9⅝	+⅛
11¼	10⅛	ACM Gvt Se	1.09	9.8		400	u11¼	11⅛	11¼	+⅛
10⅜	8⅝	ACM Man x	0.99	9.5		348	u10⅜	10¼	10⅜	+⅛
12⅞	10½	ACM Mangd x	1.15	10.3		68	11⅛	11⅛	11⅛	
11¼	4¼	Acme Cleve	0.40	6.0	12	137	6⅝	6⅜	6⅝	+¼
6¼	4⅜	Acme Elect			35	6	4⅝	4½	4⅝	+⅛
33¼	16	Acuson			10	781	16	d15⅞	16	
19½	18⅛	Adams Expr	0.48	2.5	0	23	u19½	19⅜	19⅜	
49⅛	29½	Ad Micro	3.00	7.6		65	39⅜	39	39¼	
21½	7½	Ad Micro P	3.00	24.2	4	1028	12⅜	12⅛	12⅜	+⅛
9⅛	4⅞	Advest Grp	0.16	3.0	65	155	5⅜	5¼	5¼	-⅛
40⅜	33	Aegon ADR x	1.68	4.3	7	23	39¼	38⅞	39⅛	-⅛
47	35¼	Aetna LI	2.76	7.1	10	852	39	38½	39	+⅛
12⅜	8⅞	Affil A	0.24	2.1	14	354	11⅛	11½	11⅝	+⅛
34	24	Aflac	0.44	1.3	16	305	33⅛	32⅞	32⅞	-½
19⅜	14⅞	Ahmanson	0.88	5.8	7	3878	15½	15¼	15¼	
22½	5⅝	Aileen Inc			10	211	6	5⅞	6	+⅛
49½	36½	Air Pr Chm	0.86	1.9	19	1463	45⅝	44¾	44⅞	-¾
29¾	12½	Airbrne Fri	0.30	1.9	30	1367	16½	15¼	15½	

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
11½	6⅝	ZenithElec				4 302	6⅞	6⅝	6⅞	+⅛
19½	14½	Zenith Nat	1.00	5.8	8	45	17½	17¼	17¼	-⅛
7½	6	Zenix Inc	0.78	10.8		112	7¼	7	7¼	+⅛
13¾	10	Zero Corp	0.40	3.6	17	272	11⅛	10⅞	11⅛	+⅛
36	27¾	Zurn Ind	0.88	2.9	20	221	30⅛	29⅞	30⅛	+⅛
14⅛	12	Zweig Fund	1.12	8.7		196	12⅞	12⅞	12⅞	
11	9½	Zweig Totl ♦	0.98	9.3		475	10⅝	10⅛	10⅝	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full

AMEX COMPOSITE PRICES

4 pm close September 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G	0.10	37	740	16⅞	16¼	16¼	-⅛
Perini	0.80	21	23	11⅞	11⅞	11⅞	+⅛
Pit HMP ♦	1.14	13	36	u16½	16⅛	16⅛	+⅛
Phil LD	0.28	18	616	40⅛	39¾	40	+½
Pittway A ♦	1.10	16	58	31¼	30⅞	31¼	
Ply Gem	0.12	22	261	10½	10½	10½	
PMC	0.88	13	302	19⅛	19¼	19¼	

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Can Marc	0.23	8	11	11¾	d11½	11½	-⅛
Chmbrs A	0.01	9	2042	8⅛	7⅞	8⅛	+⅛
Chambers		10	91	8⅛	8⅛	8¼	+⅛
Champion		36	208	3⅝	3⅝	3⅝	
Hasbro	0.20	20	1227	u33¼	32⅞	33	+⅛
Health Ch		7	97	1¼	d1⅛	1⅛	
Odetics A		35	100	6	5¾	5¾	+⅛
Olsten	0.32	28	62	29⅛	29⅛	29¼	+⅛
Pall Corp	0.38	29	1467	28¼	28⅛	28⅝	+⅛
Worthen	0.10	9	36	21	20¾	21	+⅛
Xytronix		7	41	7½	7¼	7½	

NASDAQ NATIONAL MARKET

4 pm close September 11

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Withington	0.48	21	880	20¾	d20⅛	20½	-⅛
WPP Group	1.11	1	626	1⅛	d1⅛	1⅛	
Wyman-Gor	0.40	4	79	5⅛	4⅞	4⅞	-⅛

- X - Y - Z -

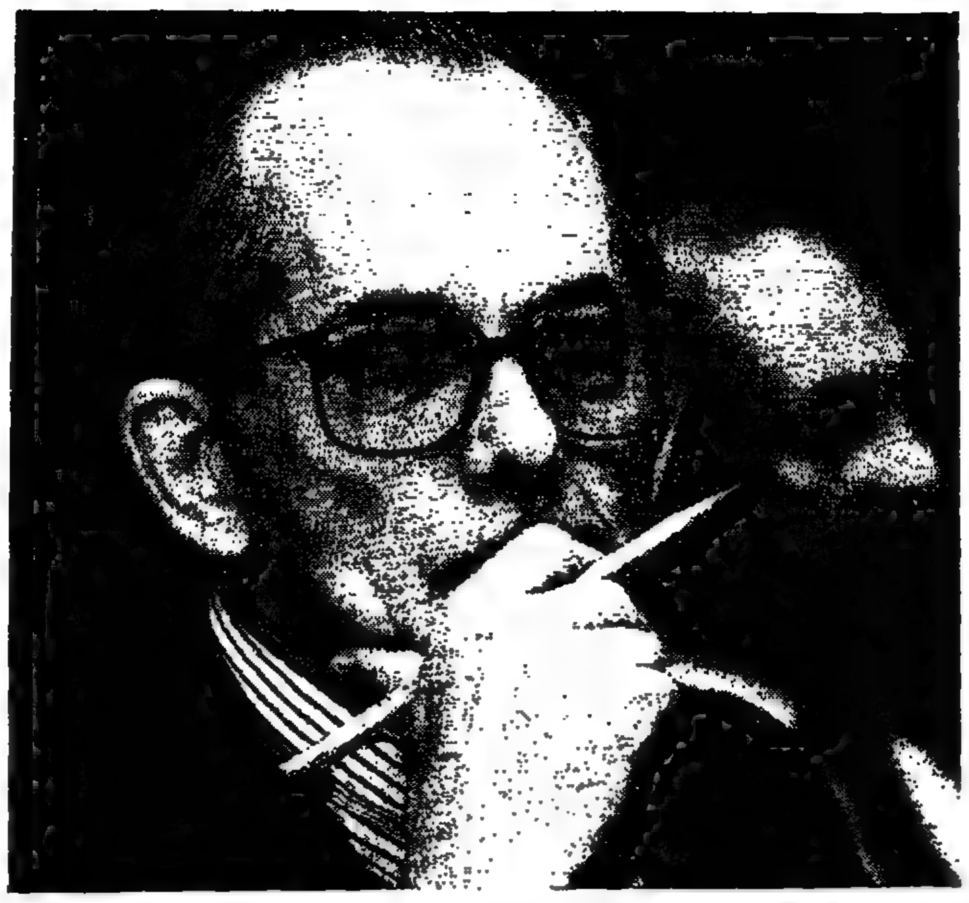
Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		22	9363	20½	19	20½	+1⅛
Xoma Corp		6	1696	11½	11	11¼	+⅛
Yellow Fr	0.94	21	679	25¾	25	25⅛	-⅛
York Rsch		7	2240	7	6⅞	6⅞	-⅛
ZionsUtah	1.44	10	4	56	55	55	-⅛

FINANCIAL TIMES
Monday September 14 1992

MONDAY INTERVIEW

Builder of a social pillar

Michel Camdessus, managing director of the IMF, talks to Michael Prowse



"I believe we don't do enough."

As a former governor of the Bank of France and director of the French Treasury, Mr Michel Camdessus has the perfect credentials for his present post as managing director of the IMF. Yet he is far from a typical product of central banks and finance ministries.

He is more affable, more extroverted and markedly less conservative than most of his peers. At least, that is how he struck me in an interview at his Washington office on the eve of the IMF/World Bank annual meeting.

I was also impressed by his unfailing optimism and good humour. Mr Camdessus faces an array of formidable problems yet betrays no trace of strain. As he smiles and gesticulates, he spins the illusion that the world's most vexing problems will readily dissolve if only the protagonists show a modicum of goodwill and common sense.

Leaving for later the sensitive issues – Maastricht, Europe's exchange rates, Russia's stalled reforms – I delved first into Mr Camdessus's personal economic philosophy, a fascinating realm in its own right.

Speaking recently in New York, Mr Camdessus said policymakers had exhausted themselves in the past decade talking about macroeconomic reforms, development strategies and trade liberalisation. It was high time they focused on "social policy", which he depicted as the essential "fourth pillar" of a system of international co-operation.

Warming to his theme, he said the international agencies (including the IMF) had failed to pay "sufficient regard to the short-term human costs involved during adjustment or transition to a market economy". The social component of interventions was sporadic, financially inadequate, late and disorganised, he said.

Few of Mr Camdessus's peers can bring themselves to utter the words "social policy", let alone demand more of it. Were his words intended only for rhetorical effect?

Mr Camdessus seemed horrified. It would be "just indecent", he said in his lilting English, to say things one didn't mean. All his experience at the IMF was that if you ignore social problems, "you can forget about the efficiency of your programmes".

In pushing his social agenda, Mr Camdessus has repeatedly urged industrial countries to meet the United Nations target for development assistance of 0.7 per cent of gross domestic product. Did he realise he was demanding a doubling of Britain's foreign aid budget?

He chuckled, but did not retreat. "I would give you to the end of the century." The increase, he said, was necessary and could easily be afforded given the scope for military spending cuts – another favourite theme.

Since his arrival at the IMF in 1987, Mr Camdessus has struggled to lengthen time horizons – to coax his staff to think less about short-term ways of "stabilising" economies and more about promoting long-term growth. Recently, his campaign has seemed to intensify. At the Rio earth summit in June, he announced that the IMF's goal was no longer growth per se, but "high quality" growth. What did he mean?

"Monetary discipline does not make sense if it is not to lay the ground for sustainable growth," he explained. But different forms of growth were not equally desirable.

By "high quality" growth he meant growth that has "a rich content in poverty alleviation", brings "improvements in income distribution" and is environmentally friendly. The IMF was having to adapt, he added, because "public opinion has told us that growth without poverty alleviation is nonsense".

Was there anything in his background that explained his unusual sensitivity on such issues? Mr Camdessus roared with laughter. "I will see a psychologist," he promised. Growing more serious, he said travelling in Africa as a senior French civil servant had opened his eyes. "I believe we don't do enough. This is an anxiety of mine."

But how did he square the IMF's meagre $1bn loan to Russia with his strictures about needing to do more to ease human suffering in the transition to capitalism? He responded in two ways. The IMF loan was only part of a total relief effort for Russia that already amounted to $12bn-$13bn. More important, it represented "just the beginning of our work".

True to his nature, he was resolutely optimistic about Russia's prospects. Prime Minister Yegor Gaidar's reforms were on track, he declared. The IMF had just dispatched a team to negotiate a full standby agreement for 1993. "We have a strong determination to do the maximum and to encourage others to do the maximum." In theory the maximum means an IMF loan of about $3bn, he indicated.

PERSONAL FILE

1933 Born in Bayonne, France. Educated University of Paris and Ecole Nationale d'Administration
1960 Joined French Treasury
1978-1984 Chairman of Paris Club of creditor nations.
1982 Director, French Treasury.
1984 Governor, Bank of France.
1987 Managing director, IMF.
1992 Appointed to a second term.

Turning to Europe, I asked whether the French vote on Maastricht was really crucial to Europe's future. He smiled and conceded that his countrymen had a tendency to exaggerate their own importance. He then plunged into a passionate defence of the treaty.

A European single currency was the "single most important step toward the reconstruction of an orderly monetary system since the breakdown of Bretton Woods in the early 1970s," he said. Maastricht was "good for Europe, good for the world, and very good for France." He felt certain that common sense would prevail on the day of the vote.

But what was the logic for a single currency? Why make Europe homogenous? Were not small countries – Switzerland, for example – often prosperous? Mr Camdessus was firm. "The logic is to make transactions easier and disciplines common." Because Europe is a community, it is essential that fiscal and monetary policy be "conceived, managed and implemented in common".

Taking a wider view, while Maastricht would not allow "Europe to dominate the world with a currency stronger than the dollar," it would create "a position of equal partnership with other key currencies". It would enable Europe to do more to promote global monetary stability.

The treaty, moreover, would reduce inflation and budget deficits and stimulate saving and investment. It would turn Europe's "totally unacceptable" current account deficit into a surplus, thus providing the savings needed to fuel the economic transformation of eastern Europe.

How did he react to the turmoil on European foreign exchanges? Didn't the shock of German unification provide a textbook justification for a realignment of currencies in the exchange rate mechanism?

Mr Camdessus conceded that a realignment had been an option "at the moment of unification". But that course had rightly been rejected because it would have undone much good work. "Credibility in monetary affairs takes a long time to build but is very rapidly destroyed." The future lay not in a realignment but in putting in place macroeconomic policies that "truly supported" current parities.

In Germany this required "convincing budgetary action". Italy faced "the moment of truth"; it had a last chance to take "extremely strong fiscal action" and demonstrate its commitment to the Maastricht convergence criteria.

Talk of Maastricht reminded me of the bewildering variety of claims on the time of IMF managing directors. Yet it is often possible to identify a single "defining task". In the case of Mr Jacques de Larosiere, his predecessor, it was the third-world debt crisis.

Did Mr Camdessus agree that his defining task was overseeing the historic shift to capitalism in former Soviet republics and eastern Europe?

He was far too canny to be comfortable with that risk-laden gauge of job performance. "The republics are quite important. But I still spend a great deal of time on debt." And working toward "a better co-ordination of policies among major countries" was also a top priority. With any luck, the affable Mr Camdessus will hit at least one of these targets. In the meantime, expect more extracurricular ruminations on social policy.

Why Bill and Al need Paul

MICHAEL PROWSE on America

"Kennedy was obviously looking for a reassuring symbol of financial rectitude, and he made a calming, bipartisan choice."

I quote from Changing Fortunes (Times Books), where Mr Paul Volcker, the former Federal Reserve chairman, recalls President John Kennedy's inspired choice of Douglas Dillon as Treasury secretary in 1960. Dillon, writes Mr Volcker, was a Republican and a conservative: an investment banker with "impeccable credentials in the financial and diplomatic communities".

It would be a strange, but far from impossible, twist of fortune if Mr Volcker were to find himself playing Dillon's role in a Clinton administration. With election day less than two months away, Mr Bill Clinton is playing his economic cards close to his chest. He and his choice for vice-president, Al Gore, rely on an eclectic mix of economic and financial advisers, none of whom is a certain bet for either of the two top economic posts – Treasury secretary and White House chief economist.

The most frequently mentioned contenders for Treasury secretary in a Clinton administration include investment bankers Bob Rubin of Goldman Sachs, Roger Altman of the Blackstone Group and Felix Rohatyn of Lazard Frères. All are well regarded in financial circles, but none (with the possible exception of Mr Rohatyn) would add much ballast to a Clinton presidency.

Mr Volcker is in a different class. He would be an instantly reassuring figure, not just on Wall Street but in central banks, finance ministries and bourses around the world. Imagine Mr Clinton arriving at his first economic summit with the large, cigar-smoking figure of Mr Volcker in tow: would anybody pine for the hamfisted economic diplomacy of George Bush and Nicholas Brady?

At present Mr Clinton appears weak on macro and international economics. He is comfortable debating many of America's microeconomic problems, such as uncontrolled healthcare costs and poor job training. His economic plan, Putting People First, makes valuable suggestions for improving US productivity, mainly through higher investment in education, training and infrastructure.

But its priorities are those of an intelligent state governor, rather than an international economic statesman, and they reflect the expertise of close advisers such as Mr Ira Magaziner, a business consultant and educational expert, and Mr Robert Reich, the Harvard political economist, neither of whom would claim macroeconomic credentials. Mr Robert Shapiro, another capable adviser, does have a macro background but lacks international stature.

Mr Volcker would fill the macroeconomic hole in the Clinton team far more convincingly than financial experts such as Mr Rubin or Mr Altman. But could a former under-secretary at the Treasury during the Nixon years fit into a progressive Clinton administration? Disapproving references in Changing Fortunes to escalating healthcare costs, eroding infrastructure and educational shortcomings suggest Mr Volcker would have few philosophical differences with the Arkansas governor who, after all, is a decidedly conservative Democrat.

Sources close to Mr Volcker say he feels underemployed as chairman of J D Wolfensohn, the investment bank, and would be delighted to get the phone call from a president-elect Clinton. The top job at the Treasury, at a testing moment in US economic history, would be a fitting finale for a life of public service.

The drawback for Mr Clinton is that Mr Volcker would be too powerful. He might overshadow his president. Clinton advisers also fear that he might prove "uncontrollable" – which is one reason why speculation about a role for Mr Volcker mainly occurs outside, rather than inside, the Clinton campaign. In all probability, Mr Volcker would prove implacable on certain issues. He would apply relentless pressure for a lasting reduction in the budget deficit. But this ought not to matter; Mr Clinton is reportedly much keener on deficit reduction than many of his advisers. And macroeconomic stability – Mr Volcker's strong suit – is precisely the environment required if Mr Clinton's long-term structural reforms are to bear fruit.

If Mr Volcker were to go to Treasury, Mr Clinton would be wise to pick a complementary figure as chief economic adviser. A dynamic young academic would provide the perfect foil for elder statesman Volcker. Mr Clinton might opt for an economist he knows well, such as Mr Shapiro. But he would probably be tempted by one of the profession's young intellectual heavyweights.

Mr Paul Krugman, a rising star at MIT, is a good bet. His academic expertise lies in the Clinton team's area of greatest ignorance: international macroeconomics and trade theory. Yet he has also helped mould the domestic debate, with a book that drew attention to people's diminished economic expectations and with controversial estimates of the growth of income inequality during the Reagan/Bush years.

If Mr Clinton wants to shine economically, he could do worse than draft the two Pauls – Volcker and Krugman. But first he must win the election.

JOTTER PAD

An escape from justice

JUSTINIAN

A shorter, simpler and cheaper system for trying complex fraud cases would reduce the risk of trials having to be abandoned or breaking down for reasons of defective procedures in the criminal justice system. This is the recipe recently prescribed by the new director of the Serious Fraud Office, Mr George Staple.

His approach reflects the anxious consideration now being given in the wake of a crop of misfired fraud trials – Guinness, Barlow Clowes and Blue Arrow – which have unsettled the administrators of criminal justice. It was Mr Justice Oliver Wendell Holmes of the US Supreme Court who once remarked that there was more danger that criminals would escape justice than that they would be subjected to tyranny.

Mr Staple, not unnaturally, focuses primarily on what prosecuting authorities might undertake to achieve the objective of a more effective method of subjecting fraudsters to a judicial process. He has three main proposals to make for reforming the existing system or seeking an alternative route to a solution which is just for both offenders and the public.

First, he wants to produce greater selectivity in both the range of criminal charges facing accused persons, and the numbers of defendants put on trial. The former is always available to prosecutors, aided and abetted by a vigilant judiciary. The latter is also exclusively within the discretion of the prosecutor.

Any of those at the very heart of the fraudulent enterprise present an appropriate target for prosecution. And there has always been a sound stratagem among prosecutors to include the minor miscreants in a fraud trial. A jury finds special comfort in acquitting the peripheral offender, while convicting the main villains. If only the central figures are in the dock, the opportunity for selection is severely reduced and may lead to the unforeseen consequence of acquittal for one or more of the palpably guilty ringleaders.

Mr Staple's special suggestion is to formulate an explicit system of plea bargaining. Informal agreements to accept pleas of guilty in return for monetary or other non-custodial penalties do pertain at present. They could be encouraged. But there is an instant dislike within the legal profession for any formal bargaining which needs to be carried out before the criminal justice system is majestically wheeled into place. A leaf might be taken out of the Inland Revenue's book. It uses its power to administer monetary penalties, up to three times the amount of the tax evaded by the defendant. If that were to be an acceptable policy in non-fiscal frauds, it would need to be legislatively sanctioned.

The third proposal is allied to the second. It is to confer powers on the financial regulatory bodies to discipline fraudsters by way of penalties such as disqualification from offices and posts, in addition to administering fines. Again, legislation would be required.

As long as criminal justice is to be applied effectively and efficiently to serious fraud cases, the focus of reform must be on the defence. Mr Staple does not want to tamper with the right to trial by jury. Instead he wants tough measures to ensure that the defence puts its cards face upwards on the forensic table at the earliest stage, and that judges should strictly enforce their orders for disclosing the nature of the defence.

Mr Staple thinks that much can be achieved to produce a cultural change in criminal justice, abandoning the tradition whereby defendants keep their defences up their sleeves until the last moment, even declining to indicate whether they will go into the witness box until the last prosecution witness has given evidence. Early disclosure of a defence would no doubt help define the issues to be tried. The introduction in 1967 of a provision that took away the absolute right of a defendant to call evidence in support of an alibi, and required prior notice to be given of an alibi defence, provides a useful precedent for demanding prior disclosure of a defence.

Certainly prosecuting counsel can do much – but only so much – by presenting the Crown's case in a readily intelligible form for ordinary jurors.

But will such reforms of the procedure within the jury system suffice to remedy the mischief of complex, prolix and costly trials?

Six years ago, the Roskill Committee on Fraud Trial (to whom Mr Staple gave written evidence) thought not, and recommended trial by a "fraud trials tribunal", consisting of a judge and two lay members selected from a panel of persons with expert qualifications. The government rejected the recommendation, and still inclines towards preserving trial by jury. Will it resist the pressures for at least modifying the unqualified rule of jury trial for all serious crime?

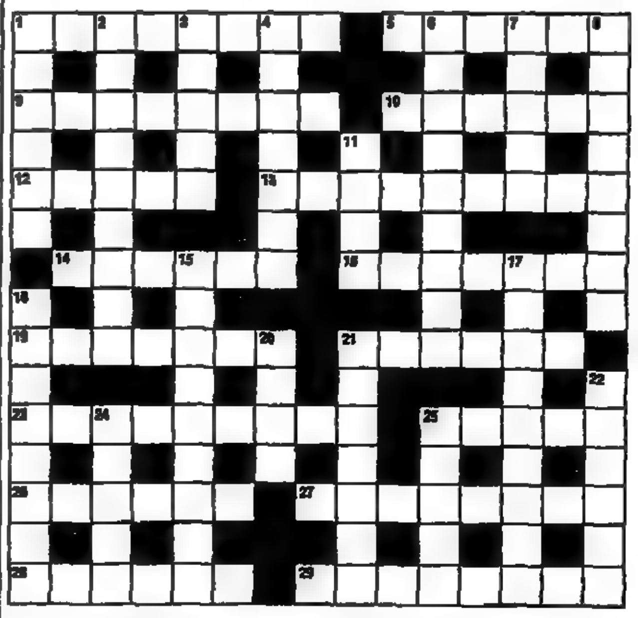
The ultimate problem of trial by jury is less about refining the process of prosecution or imposing disclosure by the defence of its case than about the conduct of the case as it is being unfolded in the courtroom. It is an inevitable feature of jury trial that defence counsel, at the insistence of the client, will wish to put up a smoke screen in front of the jury, and confuse the issue so that doubt is created in the jurors' minds.

Without the risk of impairing the fairness of the trial process, it is impossible for the judge to stop the spoiling tactics of defence counsel. This is an aspect of jury trial that was not fully considered by the Roskill Committee. It should now form part of a comprehensive review, and not one confined to a narrow band of cases of an indefinable class. Perhaps this is a topic for the Royal Commission on Criminal Justice.

Louis Blom-Cooper QC

CROSSWORD

No.7,950 Set by DANTE



ACROSS

1 Chaperon needed when going round part of S. America with a rough reputation (4,4)
5 What Spaniards may want is to lie back before tea's brewed (6)
9 Clear course of action after study (8)
10 Many dwell on this anagram made by setter (6)
12 Splits payments for accommodation (5)
13 Notice result of successful appeal (9)
14 It may be done up, but not back (6)
16 Peremptory demand for a rise (5,2)
19 A cinema organisation showing insufficient vitality (7)
21 Remove the sediment from port (6)
23 Polish is taught at this school (9)
25 Copper to marry a pretty girl (5)
26 Part of an Elgar composition – in D Minor? (6)
27 It's Bob turn to be obstinate (8)
28 Esther's other name (6)
29 Break one's nose, perhaps (8)

DOWN

1 Famous orator upsets Eric when in company (6)
2 Revised plan in use for a land project (9)
3 Eye-catching gadgets (5)
4 Managed to hold the first man coming up fast (7)
6 Entangled but certain it can be unravelled (9)
7 When dancers take them they're on the level (5)
8 Open late perhaps for supply of chamois (8)
11 Goddess is one's double (4)
15 Last monument in Arizona? (9)
17 Canine check (9)
18 Measure appropriate for Londoners (4,4)
20 Slice the approach shot (4)
21 Track celebrity's heavenly body (3-4)
22 More eager to be a mourner (6)
24 Identifies celebrities (5)
25 It may strike out A, B or C, perhaps (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 26.

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FINANCIAL TIMES SURVEY

■ If vision becomes reality Port Louis harbour will be more important . Page 4

MAURITIUS

■ The tourist industry must maintain high environmental standards Page 6

SECTION III

Monday September 14 1992

Mauritius became a republic earlier this year: its flag flies over Government House in Port Louis, capital of the island

A third world success story in the 1980s, the Indian Ocean island of Mauritius seeks now to integrate closely with the world economy. But the islanders' easy-going style may be at odds with long-term ambitions. **Michael Holman** reports

Tiger-like aspirations

WHEN a finance minister describes a 4.9 per cent real growth in GDP over the past year as "a fairly good performance", he is surely indulging in understatement. Or he manages the economy of Mauritius.

The year ahead will be better, Mr Ramakrishnan Sithanen reassured listeners to his budget address in June: he forecast growth of over 6 per cent. This was more in line with what Mauritians have come to expect.

Over the past decade, the Indian Ocean island has maintained a record of sustained development remarkable by international standards, and positively phenomenal in comparison to Africa, some 1,500km to the west. But an era is ending: a changing world trade environment and the erosion of Mauritius's advantages, such as cheap labour, means that the going will be tougher, the competition sharper.

It was 10 years ago that the government of Sir Anerood Jugnauth, the prime minister, bit the bullet of structural adjustment, observing the conditions of successive IMF stand-by programmes, and winning World Bank backing.

Mauritius was in a parlous state, with inflation exceeding 30 per cent, an overvalued currency, and unemployment topping 20 per cent, until the transformation began.

The mono-crop (sugar) economy was able to broaden its base. The export processing zone (EPZ) was encouraged by realistic exchange rates and government incentives. Drawing on a cheap, literate and multi-lingual (English and French) work force, and concessional access to western markets under the Lome convention, the EPZ catapulted the island into the ranks of the world's leading clothing exporters.

The island's idyllic beaches were already attracting tourists. But a hotel building boom, in response to the attractive investment climate and vigorous marketing, has seen the number of visitors treble to the 300,000 expected in 1992.

At the same time, the budget deficit has been falling from 14 of GDP in 1980 to a forecast 0.7 per cent for 1992-3. External debt servicing which consumed 26 per cent of export earnings has dropped to single figures, and there is near full employment.

The overall result is a third world success story, where over the past decade growth has averaged around 6 per cent a year. With a population increase of only 1 per cent, it means that real living standards have risen by some 5 per cent annually, propelling per capita GDP from well under a thousand dollars to over $3,000.

But Mauritius owes its success to more than the right doses of IMF medicine. One of the main planks in the platform on which the island's take-off has been based is singled out by Sir Anerood: "Political stability in a democratic context" – to which he might have added ethnic and religious tolerance.

The 1m islanders are a harmonious mix of Hindu, Moslem, Creole and small minorities of French and Chinese origin, culturally diverse but seeking political consensus. "Parties hiding behind words like 'militant', 'socialist', and 'workers' have come to occupy the middle ground in politics," says one commentator, "and any coalition is possible."

Nothing illustrates this better than the governing alliance of Sir Anerood's Mouvement Socialiste Militant (MSM) and the Mouvement Militant Mauricien (MMM) led by Dr Prem Nababsing, deputy prime minister, and including Mr Paul Berenger, the able foreign minister. Even before they joined forces in 1990, it was clear that personalities rather than policies divided them.

The alliance won last September's general election by a comfortable majority over Dr Navin Ramgoolam's Labour Party, the main opposition. But the government cannot afford to be complacent. The remarkable statistics conceal weaknesses in the government's economic management, likely *to be exposed in the 1990s.*

One prickly problem is the increasing cost of the Mauritian "welfare state" – free education, health facilities and other social services. Pay awards due next year will be inflationary, and a skills shortage is impeding growth.

The poorly regulated building boom in the tourist sector has led to substantial overcapacity, as well as exacerbating environmental problems belatedly addressed. Comparatively little progress has been made in implementing the long overdue reform of the sugar industry, while the considerable potential of the horticultural sector has yet to be exploited.

For all the talk of diversification of the EPZ, from its textile base into areas such as high technology, there has been only modest progress.

Meanwhile both sectors face further challenges. Uncertainty about the relationship with China helped prompt Hong Kong industrialists to invest in the EPZ in the 1980s. "Now my uncle in Hong Kong is more interested in China's economic zones" says a Mauritian of Chinese origin, explaining the fall in investment in the zone.

Sugar will be hit by reform of the EC's common agricultural policy and the cut in subsidies to Lome members. And if the Multi-Fibre Arrangement is phased out, the market advantages enjoyed by the island's textile sector will be eroded.

Challenges do not end here. The post-communist era has produced new competitors for investment, such as Vietnam, or China, where labour costs are below Mauritian levels.

Much is expected from the *fledgling financial services sector* – the combination of an emerging stockmarket, offshore banking and the freeport of Port Louis: "The financial services sector is poised to become the fourth pillar of our economy", says Sir Anerood, "and help maintain its growth momentum and lead us on the path to become a Newly Industrialised Country."

This strategy - an aspiring Indian Ocean tiger drawing inspiration from Singapore or Taiwan – seems overly ambitious. Government officials and business leaders frequently refer to "the African market", whether as a source of funds for the offshore banks, or as a destination for which international traders will use the freeport as a stepping stone.

But the level of interest in the island's offshore facilities suggest that Africans prefer to bank either with the former big centres (notably London and Paris) or in traditional locations such as Switzerland. And as an economic hinterland, Africa provides Mauritius with little encouragement. Sub-Saharan Africa's share of world trade is not only small – about 3 per cent – but either stagnant or declining.

Nor do Mauritians seem prepared to respond to a more demanding world by working harder and longer. Civil servants in an over-staffed administration (the private sector is only a little better) still clock in at nine, rushing for the exits at four in the afternoon. The island's tendency to sit on its collective laurels makes for a comfortable life. But the would-be tiger of the Indian Ocean has a long way to go.

KEY FACTS

Area	1,860 km²
Population	1.06m
Head of state	President Cassam Uteem
Head of government	Prime minister Sir Anerood Jugnauth
Currency	Mauritian rupees
Average exchange rate	$1 = 14MRs
GDP growth (1992 forecast)	6.5%
GDP (1992 estimate)	MRs47.4bn
GDP per capita (1992 estimate)	$3,250
Unemployment rate	2.1%
Inflation (estimate)	5%
External debt (1990)	$938m
External debt service ratio (1990)	6%
Main exports (1991)	Sugar MRs5.2bn; clothing MRs9.7bn

Notes: Source: Ministry of Finance; IMF; World Bank

IN THIS SURVEY

MAURITIUS 2

Tony Hawkins takes an overview of the economic prospects

Miracles need a long haul

ONLY a handful of third world countries in East Asia have made the difficult leap from factor-driven growth, exploiting abundant low-cost labour or rich natural resources, to a modern, investment-driven economy.

Mauritius, having already exploited to the full its narrow resource base, will try during the 1990s to make this transition to a skills-intensive, service-led economy. It has little choice, because employment of both labour and land is forcing it upmarket into territory where, today at least, it has no obvious comparative advantage.

International trends are forcing it along a new, more difficult, growth path too. Liberalisation of the world trading system – especially the phasing out of the multi-fibre agreement (MFA) – will remove an important source of past competitive advantage in the form of preferences in the European Community, while reform of the EC's common agricultural policy will hurt the sugar sector.

With two of the island's three economic pillars, clothing and sugar, under threat from global forces, as well as domestic constraints, the third pillar, tourism, will have to be supplemented by new sources of growth.

The trick in the 1990s will be to "grow" new competitive advantage, especially in services: offshore banking and other business services, a free port, increased tourism, diversified agriculture and manufacturing: in the same way as it successfully developed into a world-class exporter of knitwear over the last decade.

But it is going be more difficult this time round, partly because there is no longer a pool of skilled and semi-skilled workers to exploit, but also because the world of the 1990s threatens to be far more competitive.

INFLATION

Years	Annual %
1980	42
1981	14.5
1982	11.4
1983	5.6
1984	7.3
1985	6.7
1986	1.8
1987	0.6
1988	9.2
1989	12.6
1990	13.5
1991	7.0
1992*	5.0

*Forecast
Source: Central Statistical Office, St Louis

Mauritius expects to lose some of its preferential advantage in the single European market to low-cost manufacturers like Greece and Portugal, while facing tougher competition from other third world exporters if and when the Uruguay Round of trade liberalisation measures is implemented.

Following the important structural reforms of the early 1980s, the Mauritian economy has grown at almost 6 per cent a year, with the main thrust coming from the export processing zone(EPZ), dominated by clothing manufacturers, whose share of GDP more than doubled from 6 per cent in 1984 to 14 per cent last year.

Sugar, the traditional locomotive of growth, whose reinvested profits fuelled both industrial and tourism expansion, still accounts for 10 per cent of GDP, while tourism's direct share, at 3 per cent, much understates its real importance as a foreign currency earner (16 per cent of the total) and as a source of employment.

Growth prospects have deteriorated with the onset of full employment. EPZ growth slowed dramatically from more than 30 per cent annually in the mid-1980s, to an average 7 per cent a year since 1987. This reflected intensified competition in global markets, some loss of competitiveness as wage inflation took hold, and the tightening labour constraint as unemployment fell below 3 per cent last year from 19 per cent in 1983.

Despite this, EPZ expansion still accounts for more than a fifth of post-1987 economic growth. By contrast, the sugar sector has gone backwards, with value-added declining 6 per cent over the past five years The bulk of growth (60 per cent) has come from services, with the finance sector, on which great hopes are pinned, expanding at more than 6.5 per cent a year.

Tourism's real importance as a foreign currency earner is much understated

The balance of payments is healthy: a current account deficit of MR274m ($20m), 0.7 per cent of GDP. Mauritius has a large trade deficit of MR3.3bn ($235m), but this will be more than offset by tourist earnings of over MR4bn in 1992, while capital inflows, in recent years, have averaged MR1.5bn. External debt is modest at $938m (1990), with a debt-service ratio of 6 per cent.

BALANCE OF PAYMENTS (MRs in millions)

Fiscal years	1989-1990	1990-1991	1991-1992
Exports	15,925	18,166	19,499
Imports	20,019	21,971	22,846
Trade deficit	-4,094	-3,805	-3,347
Net invisibles	+2,228	+2,945	+3,073
Current account deficit	-1,866	-860	-274
Net capital	+1,409	+1,714	+1,428
Unrecorded flows	+3,498	+2,259	+1,894
Overall balance	+3,041	+3,113	+3,048

Source: Bank of Mauritius

Hopes of maintaining growth at 6 per cent look optimistic. The signs are that Mauritius will have to settle for a more sedate 4 per cent growth rate in the 1990s, although this year GDP is forecast to rise 6.5 per cent, chiefly on the strength of a recovery in the sugar sector following last year's drought.

Export processing zone (EPZ) diversification – with reduced dependence on clothing in favour of electronics, watch assembly, jewellery manufacture – has not yet materialised. There is a strong feeling that the Free Zone firms would do better to stick (literally) to their knitting. At present almost 85 per cent of EPZ workers are employed in the garment industry, with another 6 per cent in textiles, and this sectoral concentration has been increasing.

The Mauritian education system is well equipped to provide the type of worker required for relatively low-skill clothing manufacture, but its capacity to turn out workers capable of operating high-tech state-of-the-art equipment, and people trained to staff and manage entrepreneurial service activities, is very much in doubt.

Even if indigenous skills can be developed, there are just not enough pairs of hands to go round. This means not only that labour participation rates must rise, with more women being enticed to take jobs – participation rates are twice as high among men – but also that productivity growth must be secured from substantial new investment in both the software and hardware of modern business.

Traditionally, growth and diversification has depended heavily on the reinvested surpluses of the sugar sector. But with sugar profitability on the wane, new sources of savings will have to be found. The 1992 budget tackles this problem, with a raft of new savings incentives targeted specifically at stock market investment.

Unlike the Asian tigers, Mauritius is not a significant player in the inward investment game, attracting less than $150m in new foreign capital inflows during the 1980s. Investment has therefore been *dependent on domestic savings* levels which, fortunately, have averaged 27 per cent of GDP in recent years, sufficient for GDP growth of at least 5 per cent a year, given existing rates of investment efficiency. As sugar surpluses fall, however, so Mauritius will need to attract more foreign interest – not just financial inflows, but the even more important inputs of technology, expertise and access to markets, to brand-names and subcontracting arrangements.

There is some wishful thinking in the idea of Mauritius as a regional service centre

Attracting these inflows is not going to be easy; with a GDP of less than $3.5bn, the domestic market has little to offer. Government ministers believe that the improved economic prospects in the island's natural hinterland – east and southern Africa – will turn Mauritius into an attractive location for *entrepot* business, interfacing between Africa and south-east Asia; for regional headquarters for multinational companies as well for the offshore banking and financial services. Mr Ramakrishna Sithanen, the finance minister, sees post-apartheid South Africa as the locomotive most likely to start up the regional economy.

GDP GROWTH RATES

Years	Annual growth rates
1980	-10.1
1981	6.4
1982	5.8
1983	0.4
1984	4.7
1985	6.8
1986	8.9
1987	8.4
1988	6.1
1989	4.7
1990	7.1
1991	4.6
1992*	6.5

*Forecast
Source: Central Statistical Office, St Louis

But there is an element of wishful thinking in this regional service centre picture, given the continuing – indeed, accelerating – marginalisation of Africa and the probability of only a sluggish South African economy for the next few years at least. Even if the plan were to come good, it is very much a long-haul one.

The upbeat side of it is the Mauritian track record. Given the transformation in little more than a decade from sugar mono-economy to a finely-balanced three-legged stool – sugar, clothing and tourism – the islanders' resilience and resourcefulness should not be underestimated. Mr Sithanen has started well by rationalising domestic monetary and tax policies to increase savings and investment, while also abolishing what remained of exchange controls.

There is more to be done. For all its reputation as a liberal, outward-oriented economy, Mauritius today has more price controls than five 5 years ago; its system of centralised wage-bargaining is a drag on industrial and commercial efficiency.

Mr Sithanen acknowledges that the public sector is overmanned, agreeing that labour must be retrained and redeployed; the sugar milling sector needs to be rationalised to reduce the number of mills and thereby improving efficiency, and the one-stop investment shop at the ministry of industry needs to be streamlined.

Above all, the Mauritian miracle is going to run out of steam unless it can revitalise its human sector. Two elements are crucial. The first is the will to win, and many doubt whether the cheerful, easy-going Mauritian people, increasingly accustomed to rapidly-improving living standards (per capita income have risen 70 per cent since 1980 – have that killer instinct. Second, and perhaps more importantly, they may not have the core competencies necessary to succeed in a world where low-cost labour is no longer a passport to economic growth. Developing new attitudes and new competencies will – like financial sector growth – be a long haul.

Mr Ramakrishna Sithanen, the finance minister, takes stock

A new dynamo is required

"It's going to be difficult but manageable," says Mr Ramakrishna Sithanen, the finance minister, as he takes stock of the economic options facing Mauritius in the 1990s.

Two serious short-term problems loom: inflation, which he has successfully cut from 13 per cent a year ago to below 3 per cent at present; and a deteriorating balance of payments situation.

The balance of payments – a forecast deficit this year of 0.7 per cent of GDP – looks likely to get worse if, as planned, import-intensive investment in machinery and technology takes off as the manufacturing and services sector gear up to compete in the world economy.

Similarly, businessmen worry that inflation will accelerate over the next year, especially if, as seems probable, public sector labour unions win their battle for a double-digit pay award.

Topping the list of the minister's longer-term worries is the likelihood that global market conditions for Mauritian exports will become increasingly competitive. Uruguay Round trade proposals and reform of the Common Agricultural Policy in the European Community could damage the country's garment and sugar industries.

As one industrialist luridly puts it: "The phased abolition of the multi-fibre agreement (MFA) would spell the death knell of at least a third of export processing zone (EPZ) clothing firms."

With growth already having slowed in the EPZ, sugar, and tourist sectors, the island is looking for a new dynamo. The current emphasis is on turning Mauritius into an offshore business centre and free port – underpinned by consolidation, modernisation and diversification of agriculture, manufacturing and tourism.

"There is no reason to change a winning formula," says Mr Sithanen. Mauritius must consolidate "what we are good at," simultaneously diversifying its economy to ensure a flexible response to the fast-changing global economy. "We must improve performance in traditional sectors to stay competitive."

Two elements are crucial to Mauritian economic strategy in the next few years, he says: deeper integration with the world economy, and regional co-operation to exploit the island's geographical position. No other country in the region has the potential to develop into an offshore business centre interfacing between Africa and the Far East. The freeport could become a springboard for such trade.

He sees Mauritius as the gateway to a growing African economy in the 1990s, exploiting its export platform serving Africa as a member of the 18-nation preferential trading area (PTA). But for regional growth to take off, southern and east Africa needs a locomotive. The only country capable of this is South Africa.

In a full employment economy, growth will have to come from improved productivity, moving upmarket into higher value-added products and developing competitive advantage in skills and capital intensive activities. Having recently lost comparative advantage in labour-intensive, low value-added production, Mauritian manufacturers must find new markets and new niches. "There is always room for niche marketing," he says, "provided you market yourself properly."

The range of options has narrowed. This is partly because Mauritius has exhausted its most obvious source of comparative advantage – low-cost labour; but also because it confronts by a new set of conditions in the world economy: conditions favouring skills and capital-intensive techniques.

Mr Sithanen sees no quick-fix solution. Financial services, the freeport, and offshore business development will be a long haul, he says. But he sees no viable alternative to the growth strategy adopted in the late 1980s.

"We must continue with what we are doing," he says, "only we must do it much better."

But that will happen only if there is a change in attitude: "a change in the work ethos. People will have to work harder and better if productivity is to increase – the name of the game is to increase competitiveness."

Tony Hawkins

All hands to developing offshore business

Top of the priority list

DEVELOPMENT of the finance sector has top priority. Mr Ramakrishna Sithanen, the finance minister, is confident that Mauritius can become a regional financial centre. "We want the financial and services sectors to become the fourth pillar of our economy."

Possibly the most important single policy thrust for the 1990s is the attempt to turn Mauritius into an offshore business centre. The initial drive for offshore banks has broadened to cover all footloose business activities. Seven banks – six of them with onshore operations – have been granted offshore licences.

There are three new players: Crédit Lyonnais (joint venture with the market leader, the Mauritius Commercial Bank); the State Bank of India with the number two player, the State Commercial Bank, and Banque Privee Edmond de Rothschild (Ocean Indien) Ltd. Officials concede that the response has been disappointing, especially the absence of a Japanese or German bank.

While bankers say they hope to attract deposits and lending opportunities from Asia, especially India, they see opportunities too in the broader sphere of fund management, (two international firms have already been launched), insurance, shipping and aircraft management and leasing, and a whole raft of international business services.

While Mr Sithanen is confident that Mauritius is well-placed to exploit economic recovery in sub-Saharan Africa, it is difficult to see why African depositors and investors should prefer Mauritius to a European or Far East offshore centre.

It is hard to escape the feeling that Mauritius is a touch *remote for some of these activities*. But the minister points to the financial sector's strong growth in recent years – an average of 12 per cent a year – and to the benefits he expects to flow from the liberalisation and deregulation that figured extensively in his June budget.

There is a strong case for greater competition. Two of 13 banks dominate – the Mauritius Commercial Bank with 34 per cent of deposits and 38 per cent of advances, and the government-owned State Commercial Bank, which has a 26 per cent market share of both deposits and lending. Barclays, and Hong Kong and Shanghai, each have a 6 per cent to 7 per cent market share. Banque Nationale de Paris Internationale has 4 per cent.

In the budget, bank rate was lowered to 8 per cent from 11 per cent previously; the reduction in interest rates followed the sharp fall in inflation (from 12.8 per cent in 1990-1991 to 2.8 per cent in the year to June 1992. For 1992, inflation is forecast at 5 per cent (compared with 7.1 per cent in 1991).

Lending rates were differentiated by sector so that, while EPZ and other priority firms *could borrow at a minimum of* 13 per cent (now 10.5 per cent), traders had to pay 17.5 per cent. Government officials say now that rates have been deregulated; it is the banks that are responsible for rate discrimination, and not the authorities.

Like all directed credit systems, this one ran into problems; banks were reluctant to lend to under-capitalised, highly-geared, poorly managed EPZ firms – especially given the high turnover of firms there. There have been 53 closures in the EPZ in the last year alone – nearly a tenth of the total number.

Clearly this was no way to encourage diversification, nor the integration of the "domestic" and EPZ sectors. But with priority sector ceilings now removed, 60 per cent of bank lending has been deregulated. This has paved the way for more efficient bank lending, though the liquidity overhang in the market – estimated by the minister at MR3bn – will remain a threat to price stability.

Tony Hawkins

Stock market needs bigger players

Buy-and-hold persists

IN THE three years since its launch in mid-1989 the Mauritius stock market has come a *long way. It has 20 quoted* companies, compared with six only three years ago, and another seven applications are being processed. Market capitalisation has increased from MR3bn (8 per cent of GDP) two years ago to MR5.1bn (10.7 per cent of GDP) today. Average turnover is running at MR2m a week – four times the figure for 1989. Semdex (the Stock Exchange of Mauritius share price index), having peaked at 179 (July 1989 = 100) in August 1990 now stands at 162.

Impressive though these growth indicators are, market development is constrained by structural and cultural considerations; government incentives are unlikely to change these in the short run. In three years; only MR162m ($11.5m) has been raised in the new issue market – less than 0.5 per cent of total investment in the economy.

One explanation is the concentrated structure of business ownership in Mauritius, where family-controlled firms dominate. Owners are reluctant to go to the market to raise new funds – this would bring "outside" participation.

Traditionally, Mauritian business has relied on retained earnings and bank borrowings to finance its development. The recent reduction in interest rates and excess liquidity in the local capital market seems likely to facilitate dependence on the banks rather than pushing firms to seek long-term funds via the stock market.

The government uses tax breaks to encourage firms to go public. Until recently, stock market-listed firms paid corporate tax of 25 per cent as against a basic rate of 35 per cent. But this was not attractive for EPZ companies or hotels, which pay a 15 per cent rate of company tax. In this year's budget, Mr Sithanen cast his net more widely, seeking to attract EPZ companies by announcing a 30 per cent tax credit, so that EPZ firms which go public – none, to date – will now pay 10.5 per cent. Some EPZ firms are considering a listing, while indirect investment in the largest EPZ company, the Floreal Group, will be possible later this year when the Ciel Investment Trust which has a 67 per cent stake in Floreal, is quoted on the Mauritius market.

The danger with fiscal incentives is that they encourage firms to make the minimum number of shares available to satisfy listing requirements – 25 per cent of their equity – purely to benefit from the reduced rate of profit tax. This has happened, with the result that several quoted stocks are seldom traded and overall turnover at 2 per cent of market capitalisation is low. In part, this also reflects the buy-and-hold culture of individual and institutional holders.

On the investment side, the government is trying to foster a stock market investment and trading culture among small savers, by exempting from income tax dividends received from listed companies a 10 per cent tax credit on investment in Unit Trusts and a tax credit on investment in new shares issued by a listed company.

In the 1992 budget, in a move designed to foster the bond market, tax exemption was broadened to cover loan interest on traded bonds, while the minister announced plans to create a National Investment Trust company that will mobilise savings by selling its shares to the public and recycling the proceeds into investments in parastatals.

The exchange wants greater institutional and foreign participation. But in so tiny a market – 60 per cent or more of the quoted securities tightly held – there is little room for big players. An estimated 40 per cent of turnover is in one counter: the Mauritius Commercial Bank, the most liquid stock by far.

Tony Hawkins

Sir Anerood Jugnauth, the prime minister

Michael Holman reviews the political scene

Names are not much to go by

IF NAMES were anything to go by, Mauritius is governed by an alarming alliance of two radical parties clinging to discredited ideologies.

But the Mouvement Socialiste Mauricien (MSM) is not socialist, no more than the Mouvement Militant Mauricien (MMM) is militant.

The labels hark back to past enthusiasms, for the MSM/MMM coalition led by Sir Anerood Jugnauth, the prime minister, advocates a market economy and straddles the political centre.

Nor does the opposition Labour Party, headed by Dr Navin Ramgoolam and in alliance with the Parti Mauricien Social Democrat (PMSD), offer a radical alternative.

Although he is not short of ammunition with which to attack the government, Dr Rangoolam makes clear his support for the economic formula that has proved so successful in Mauritius.

"However, the economy is running into serious difficulties but government has run out of steam," says the son of the late Sir Seewoosagur Ramgoolam, the first prime minister of Mauritius who led the island to independence from Britain in 1968.

> "On the environment, the island's government has been all talk and little action"

"The export processing zone needs more investment in higher technology, skills training has been inadequate. And on the environment government has been all talk and little action."

Dr Ramgoolam, 45, who qualified as a doctor at Dublin and is on his way to becoming a barrister, saves his most passionate criticism for three issues: the government's decision to opt for republican status, alleged failure to crack down on drugs, and the conduct of last September's general election.

The result was a resounding victory for the MSM/MMM alliance: 57 assembly seats to Labour's three – a lopsided reflection of the 56 to 40 per cent shares of the votes cast.

"It was blatantly rigged," claims Dr Ramgoolam, amid counter charges by government. The Labour Party has taken its case to court.

Dr Ramgoolam is especially critical of the government's decision to make Mauritius a republic, formally enacted on the independence anniversary, March 12.

"I support the move in principle, but there should have been a referendum," he argues, and expresses especial concern that that government may end the recourse to the Privy Council as a final court of appeal.

"We need this constitutional safeguard," says Dr Ramgoolam.

He takes heart from the recent village council elections which, he argues, showed a swing against the government. The results are difficult to interpret, for candidates do not stand under the political partys' banner.

But coupled with recent rumblings from the unions, pushing for wage increases, they may serve as a warning against complacency to Sir Anerood, enjoying his 10th year in office.

His lengthy tenure owes much to skilful political footwork, ending one alliance and embarking on another – the latest being with the MMM, based on a bargain struck in July 1990.

Sir Anerood turned to Mr Paul Berenger, the key figure in the MMM, which the two men helped found in 1970. The Mouvement swept to power in the 1982 election, winning all 60 mainland seats (the island of Rodrigues has two assembly members).

But nine months later Sir Anerood and Mr Berenger parted company. The differences between the two men involved personality rather than policy. In his short tenure as finance minister Mr Berenger began the implementation of the economic reform programme, followed through by Sir Anerood after he left the MMM to create the Mouvement Socialiste Militant, the party he leads to this day.

> The enigmatic Paul Berenger, former finance minister, remains a key figure

Although Dr Prem Nababsing, the deputy prime minister, heads the MMM, the enigmatic Mr Berenger remains the key figure in the party. Unlikely ever to become prime minister by virtue of his Franco-Mauritian origins – an electoral liability on an island where 52 per cent of the 1.1m population are Hindu, and 17 per cent Moslem – he can play the role of king-maker.

Whether the alliance can hold remains to be seen: "Breaking and forging coalitions is a political way of life in Mauritius", says one veteran observer.

The main reason is not hard to find. As Dr Ram Mannick, a UK-based Mauritian academic comments in his book, Mauritius: The Politics of Change*, there is very little to choose between the various parties: "Consensus politics rules the day," he notes.

This principle accounts for one of the island's strengths – stability. But as Dr Mannick pointed out: "The danger is that politics becomes opportunistic – a game to get into government rather than a debate over policy issues."

"Real problems might be forgotten," he warns, "while politicians struggle for positions."

**Dodo Books, Mayfield College, East Sussex TN20 6PL*

Michael Holman examines the freeport plan

Incentives are in place

IF VISION becomes reality, Port Louis harbour will play an increasingly important role in the economic development of Mauritius.

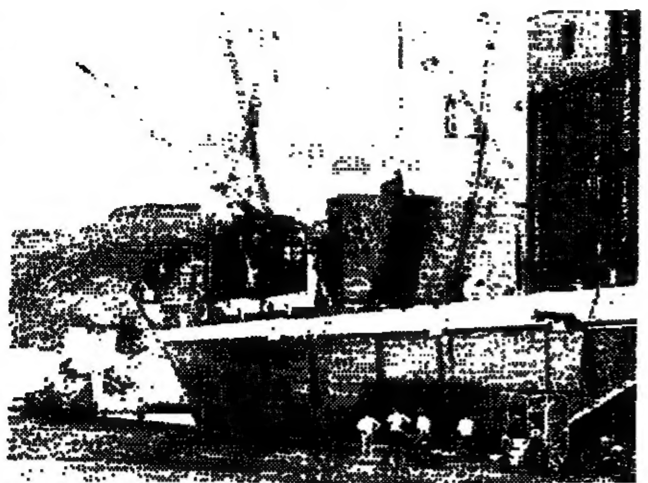
Hand in hand with the expansion and improvement of the harbour and its facilities is the plan for a freeport, closely linked to the island's emerging role as an offshore banking centre.

The port would serve as an international trade depot, providing warehousing for transhipment and facilities for processing or assembling of goods and materials for re-export to destinations around the world.

Sir Edouard Lim Fat, chairman of the Mauritius Freeport Authority established earlier this year, and prime mover behind the establishment of the island's Export Processing Zone, acknowledges that it is an ambitious project.

The publicity material for the project refers to the island's "strategic location in the Indian Ocean." But the natural economic hinterland is sub-Saharan Africa – which is responsible for only 3 per cent of world trade.

"It is nevertheless a significant market which we can help service," counters Sir Edouard, who is just back from a promotional visit to the Far East. "Membership of the Preferential Trade Agreement (an African trading bloc) is one of the biggest assets we have. We are a gateway to Africa, particularly for exports from Asia."



"The job is to put the freeport on the map:" Port Louis harbour will contribute more to the island's economic development

The success of the Export Processing Zone – selling knitwear to Europe and the US – shows that distance need not be an obstacle. Sir Edouard goes on to list a wide range of incentives.

Machinery and materials imported by freeport operators will be exempted from duties and taxes, and goods destined for re-export will qualify for reduced port charges.

Companies engaged exclusively in re-export qualify for concessionary tax rates; free repatriation of profits; freedom from exchange controls; exemption from duties; tax on imported office equipment and, in addition, tax breaks for expatriate staff.

Double taxation agreements with Britain, South Africa, France, Germany and India already exist, while treaties with Italy, Zimbabwe, Sweden and Malaysia are scheduled to come into effect soon.

These incentives, coupled with the harbour's improved facilities, political stability, good telecommunications, a well educated bilingual (English and French) labour force and pleasant living conditions, make up an attractive package, argues Sir Edouard.

The port, which handled over 3m tons of cargo during the year ending June 1992, has ample room for expansion, with about 290 acres of land created by a dredging and reclamation programme. In addition to five deep water quays, an eight hectare container park with an annual throughput of 85,000 TEUs, has provision for refrigerated containers.

A 7,500 sq.m. shed is available for freeport activities, while 37 acres of land have been earmarked for development, should demand warrant it.

"We have the facilities, we are providing the incentives – my job now is to put the freeport of Mauritius on the map," says Sir Edouard.

Tony Hawkins notes that EPZ growth has slowed to a crawl

Important to go upmarket

AFTER five years, during which growth in the Export Processing Zone (EPZ) averaged a remarkable 26 per cent, manufacturing in Mauritius can no longer claim to be the leading sector of the economy.

Indeed, in the last three years, EPZ growth has slowed to a crawl – at least by Mauritian standards – with its output rising by a very respectable 6 per cent a year. The slowdown reflects a combination of demand and supplyside factors.

On the supply side, full employment, higher inflation and reduced investment has undermined growth. At the same time, demand in the island's crucial European markets has been hit both by the recession and by intensified competition.

Export growth, which averaged 35 per cent in the mid-1980s, is down to single-digit levels, though the EPZ's export role continues to grow in importance and it now accounts for 63 per cent of total export earnings.

Investment in manufacturing in the last two years fell below the levels of the late 1980s, but this has been partly offset by the marked improvement in labour productivity.

Productivity in the EPZ, fell more than 20 per cent in the early 1980s as employment grew far faster than output. It has since recovered strongly, increasing 20 per cent since 1988.

This is an encouraging development – and one which suggests that Mauritius employers are responding to their eroding margins by squeezing extra output from the island's workforce. Indeed, between 1987 and 1991 value-added per worker in the free zone increased 27 per cent.

Opinion is divided on the future of what has become the model for export-led growth in Africa.

Since 1987, Mauritian ministers and business leaders have been pushing for diversification out of clothing and textiles; two industries which, between them, account for 85 per cent of EPZ production. Their efforts are directed towards diversifying into jewellery (whose current output share is 3.5 per cent), watches, optical goods (5 per cent), leather goods and electronics.

Electronics is one of the industries targeted for the diversification effort

But there is a growing feeling that Mauritian exporters should focus on moving upmarket in the clothing industry rather than seeking to develop new sources of competitive advantage.

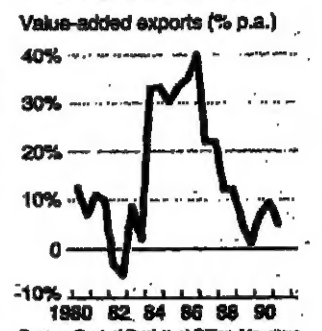
Mr Jean Claud de l'Estrac, the industry minister, says that while he favours diversification, "the choice is not ours to make."

He has a foot in either camp, arguing for the modernisation of the clothing sector so that it can exploit its experience to advantage, and its present foothold in world markets. "By global standards, we are still a low-cost producer of textiles," he says, adding that the textile sector has a future so long as it adapts to changing conditions at home and abroad.

There is general agreement that urgent action is essential; a successful outcome to the Uruguay Round of Gatt trade talks would, within a decade, torpedo the EPZ's largest single export, the T-shirt industry, which would lose its preferential edge relative to other third world manufacturers in the European market.

EPZ exports totalled MR12.1bn last year. Of these, France took almost 29 per cent of the total, Britain 16.5 per cent, and Germany 16.3 per cent. The island's only significant non-European Community market is the US, which buys 16.6 per cent of EPZ exports.

Export Processing Zone growth rates



Source: Central Statistical Office, Mauritius

But there is no consensus in Mauritius on precisely where the EPZ should now be heading for.

Some, such as Mr Arif Currimjee of the Bonair clothing group, one of the zone's top quality players, argues that there is scope to expand value-added very considerably by focusing more on design and marketing skills, seeking competitive advantage through differentiation rather than cost leadership.

His company has achieved a 70 per cent value-added factor compared with an EPZ average of only 32 per cent.

Furthermore, he highlights the need for closeness to the market. Bonair has a Paris office from which it monitors Euro-market trends in fashion design and retailing – pointing to the shortening of product life cycles and lead times, and the need for greater production flexibility.

Others are approaching the problem by a different route. The Floreal group, which alone accounts for a tenth of EPZ exports, and is the world's second largest manufacturer of Woolmark garments after Benetton of Italy, went offshore in 1989, opening a factory in nearby Madagascar which currently produces 30 per cent of its woolmark items. Floreal, a middle-market player which will be hard hit by the abolition of the MFA, is investing heavily in new technologies.

Like Bonair, it emphasises the need for greater flexibility, shorter production runs and, above all, improved quality. But quality gains are difficult against a background of full employment.

Similarly, the days of a single-shift textile production, with expensive capital equipment lying idle for 12 hours and more, are gone. Mr Daniel Giraud, chief executive of Floreal, echoing a pervasive theme evident in almost all sectors of the economy, stresses the need for a new and different culture, both on the part of workers and management.

Some Mauritian policymakers believe the EPZ's longer-term future lies in a consolidated, though smaller clothing and textiles sector, alongside electronics, watches, leather and optical goods manufacturers.

The establishment of an informatics park, which is scheduled to open by the end of 1993, and the rejuvenation of the EPZ development authority, spearheaded by entrepreneurs from the private sector, underline official determination to regain the EPZ momentum of the mid-1980s.

But whatever the disagreement on the extent of diversification versus consolidation, there is unanimity on one aspect. That is the need to move upmarket, reducing dependence on cost-leadership "commodity" products, such as pullovers and T-shirts, and developing new expertise in high-tech capital-intensive operations.

Julian Ozanne reports on the agricultural diversification effort

Dreams still unrealised

THREE YEARS after an investment of MRs8m in a fully mechanised fruit line, Mr Berty Malabar has been unable *to realise his dream* of a sophisticated and high quality export business of fresh fruits to Europe.

The Mauritian Government's incentive package to exporters, including a 50 per cent freight rebate scheme, has stimulated competition and dramatically increased producer prices of pineapples, bananas and lychees. Mr Malabar has been unable to secure a sufficient supply of fruit to keep his machines, which wash, wax and pack, working more than a few days a year.

He complains of the entry into the unregulated market of a *number of cowboys who do* not observe the minimum standards necessary to protect Mauritius' brand name in an increasingly competitive European consumer market.

Mr Malabar's problems are typical of the lack of clear government direction in agricultural diversification which – with the prospect of a much less favourable environment for sugar (as discussed in the article above) – has become even more pressing than before.

Furthermore, experts say Mauritius is wasting a vital competitive advantage over other African horticultural exporters such as Kenya and Zimbabwe: the huge excess capacity in air cargo for perishables, which has been created alongside the tourist boom of the past seven years.

Last year, about 80 per cent of the air capacity to Europe was unused – a total of almost 4,800 tonnes, against exports of 880 tonnes airlifted. Opportunities for greater use of sea containerisation in Mauritius' expanding port have also yet to be developed.

Incentives to exporters have increased some producer prices

Critical policy options now have to be confronted. These include, particularly, the balance between import substitution and export orientation, efficient use of scarce land resources, the type of products which to receive attention, and shifting away from what Mauritians describe as the "sugar mentality" to more active and skilled husbandry techniques.

The picture is far from bleak, however. Significant successes have been achieved in import-substituting vegetable production for the local market, particularly potatoes and ginger, and in the export of anthurium *flowers*.

Further opportunities exist in fruits and vegetables, sugar by-product utilisation and deer farming.

Experts in the sector say the need now is for a carefully considered government approach to the entire agricultural diversification industry, to map out a coherent strategy of research and support for a sector which, with the right policy environment, could expand dramatically *in the coming* years.

AGRICULTURE (000s of tonnes)

	1989	1990	1991
Sugar cane	5438.1	5548.3	5821.1
Sugar	588.3	624.3	611.3
Green tea	29.2	29.9	30.6
Black tea	5.5	5.7	5.9
Tobacco	1.0	0.9	0.8
Foodcrops	82.3	85.8	83.3
Fish	15.3	13.1	17.9

Source: Central Statistical Office, Ministry of Economic Planning

Recognition of the increasing problems facing the sugar industry is adding impetus to the diversification drive.

The Mauritian Government has given considerable incentives to non-sugar agriculture, and significant results have been achieved through crop rotation, interline cultivation, and more effective use of by-products by sugar farmers. An important project is under way to increase exploitation of bagasse, the fibrous material separated during cane crushing, for the production of energy.

Two new power stations are scheduled to start up in 1994 and 1995, which will burn bagasse during the crop and coal in the intercrop period. Two other existing power stations will be rehabilitated. The project is intended to save foreign exchange by reducing dependence on imported fossil fuels, increase the sector's value-added, and have a favourable impact on the environment by using a local renewable-source of energy.

Experts say further work needs to be done to investigate how to upgrade the value of other byproducts, such as cane straw, scums and molasses. A whole range of products – rum, power alcohol, vinegar and perfumes – are being manufactured, but most of them on a small scale.

However, the general declining profitability of sugar land, together with increased mechanisation, is likely to release land for alternative uses, with prospects for higher returns. Fruit, vegetable and anthurium production has already more than doubled since 1985.

Further increases in horti*cultural production will* depend on:

- eliminating the "sugar mentality" for a sub sector which needs much more careful husbandry, irrigation and more appropriate use of fertiliser and pesticides;
- research into the potential profitability and market opportunities of different crops;
- better land use – particularly of sugar lands, which will become impossible to bring under mechanisation because they are too rocky or hilly;

Decline in profitability of sugar may release land for other uses

- development of strategies to protect horticulture from cyclones, such as establishing windbreaks;
- radication of fruit fly;
- development of cheaper sea transportation to Europe.

According to Mr Malsbar, the creation of high standards in post-harvest handling procedures, such as selection, packing and temperature control, *will be vital to winning mar*kets and may therefore require some licensing of the industry.

Another interesting area of agricultural diversification is deer farming and ranching. Already, nine farms with about 10,000 head are producing about 450 tonnes a year. Export markets have already been found for live animals in Malaysia, and whole carcasses to the island of Réunion, and choice cuts and delicatessen are being sold locally. Deer farmers say an important overhaul of the national abbatoir, to bring it up to EC standards, is the constraint on growth at present.

Mauritius has already demonstrated considerable progress in agricultural diversification. But serious consideration by both the government and the private sector of the many constraints is urgently requiredif substantial growth is going to take place over the next five years.

An important export needs a rethink

Sugar revenues lose their sweetness

THE MAURITIAN sugar industry is facing up to the need for a far reaching adjustment in the face of increasingly uncertain revenues for its annual production, which averages 650,000 tonnes.

The prospect of a reduction in the guaranteed support price – after a seven year freeze, paid by the European Community to African Carribbean Pacific (ACP) sugar producers under the Lome Convention – has concentrated minds in the industry. Declining revenues combined with rising domestic costs of production have forced the sector into an important rethink of its external and internal policies.

But hard policy decisions are politically sensitive, given sugar's pivotal role in the Mauritian economy. It contributes 30 per cent of export earnings, 15 per cent of employment and 11 per cent of GDP.

Lingering distrust between government and the powerful sugar lobby makes it much more difficult to address the main issues of productivity, mechanisation, increased yields, modernisation and the role of state intervention.

Yet the need for a serious overhaul of the sector is vital. A Mauritius Chamber of Agriculture report says: "The industry has now reached a crossroads and important decisions have to be taken to ensure that the way ahead is the one which leads to greater competitiveness and productivity."

Mr Jean-Claude Tyack, the general secretary of the chamber, says the critical impetus for reform is the likelihood of stagnating or decreasing revenue from reduced prices as a result of reforming the EC common agricultural policy (CAP), and the Uruguay round of the General Agreement on Tariffs and Trade (Gatt).

The CAP and the Gatt may press EC sugar prices downwards

Under the CAP, the slash in the lower prices paid to farmers of cereals, milk and beef, and the pressure from the Gatt negotiations, are likely to have a downward impact on sugar prices in the EC. Sugar accounts for 80 per cent of Mauritian sugar exports.

"We are barely making ends meet at present and we expect there will be a new sugar regime by mid-1993," says Mr Tyack. "The EC can't ignore sugar for ever."

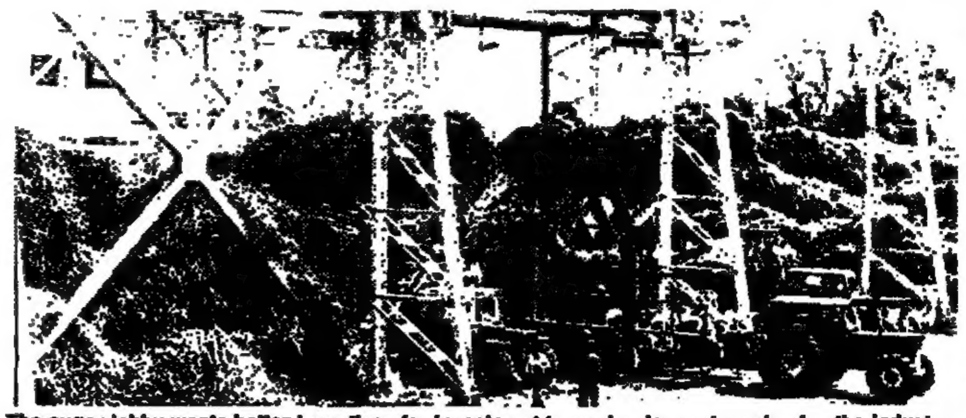
Compounding the declining profitability of the Mauritian sugar industry has been the erosion of foreign exchange gains as a result of the entry of sterling into the European monetary system, and the slowing of the depreciation of the Mauritian rupee.

Mauritius and other ACP producers are pushing for EC compensation in line with what EC farmers are being paid to maintain revenues after the cut in support prices for other commodities. Hopes are also high that the end of Portugal's transition period of entry into the EC will result in a new agreement, favourable to ACP producers, for Portugal's annual requirement of 300,000 tonnes of sugar.

Mr Michel Hardy, general secretary of the Mauritius Sugar Syndicate, says the island must also continue to raise the volume of high value specialty or "natural" unrefined sugars it sells (75,000 tonnes last year), both in EC *and non-EC markets, and hunt* out new markets for value-added products.

But the deteriorating external conditions present new challenges to the Mauritian sugar sector. Producers complain that it is overly regulated by government, is short of labour, and that the sector needs important advances in productivity and mechanisation.

Producers say, too, that the first challenge is to define a new domestic environment for the private sector in order to restore profitability and competitiveness. They say that while Mauritius is moving fast towards liberalisation, the sugar industry is "kept in a *fiscal* and economic strait jacket."



The sugar lobby wants better incentives for investment to modernise and mechanise the industry

A government/private sector working committee is currently considering prescriptions proposed by the sugar lobby. These include liberalisation of domestic price controls; reduction in the rate of export duty on sugar; rationalisation of the tax regime to eliminate double taxation on profits; better incentives for investment in capital to modernise and mechanise the sector; easing restrictions on closure of sugar factories to allow better rationalisation and economic efficiency, and reductions in and reform of "cesses" – the local agriculture tax.

With the correct enabling environment, sugar producers say they will feel more comfortable undertaking the necessary investments required needed to raise production and cut costs.

The government, however, says that the "sugar class" protests too much. Mr Madan Dulloo, the agriculture minister, points out that government has consistently given performance-linked incentives and support to the industry; and that already this year it has provided for the issue of tax free debentures and has substantially increased domestic consumer prices. Further measures will be considered for legislation, he says, but "because of the importance to *the economy of sugar there* has to be give and take and government has to balance the political, economic and social dimensions of any policy change."

Apart from the critical issue of the role of government, there is broad agreement that several other measures need to be taken. The first is to increase yields to compensate losses from the decline in area planted – each year the sugar sector loses an estimated 500-1,000 acres of land to development of housing, infrastructure and industrialisation. Producers say the present sugar yield of 8.5 tonnes per hectare on estates could be increased to 10-11 tonnes within a decade. Irrigation (especially drip and improved furrow techniques), a comprehensive water management plan for the island, increased research on new varieties, and mechanised harvesting, loading and land preparation are also extremely important.

Many of these advances cannot now be applied to Mauritius's 33,000 small planters – 90 per cent of whom work plots of under two hectares – who produce about 38 per cent of the cane. Sugar yields from the smallholder sector are at least two tonnes per hectare lower than for the estate sector. Intensifying the effort to *group small planters together* into larger areas of at least 20 hectares (land area management units) will be vital if they are going to be able to exploit capital-intensive yield improving techniques.

Modernisation of the long-neglected milling sector, increased productivity of labour, better training, and further expansion of agricultural diversification are all badly needed, too, to revive sugar's flagging fortunes.

Julian Ozanne

Paradise has problems, reports **Julian Ozanne**

Expanding tourism presents dilemmas

GOLDEN sunlight dances off the clear turquoise water of the Indian ocean. A gentle breeze, blowing across the lagoon, rustles the deep green leaves of palm trees fringing white sandy beaches. Half a mile out to sea, the surf breaks gently over the coral reef.

There are few "sea, sun and sand" tourist destinations in the world which come as close to paradise as Mauritius, with its excellent facilities for deep sea diving, big game fishing, water skiing, wind surfing, riding and sailing.

But the tourism sector is struggling to come to terms with a rocketing expansion of the industry. This has created serious environmental and economic problems and left government confused about the policy direction it should follow for the next five years.

Industry experts say a comprehensive government five-year tourism development policy is eagerly awaited. They look to this to give clear directions about critical policy issues such as tourist arrivals, hotel development, international marketing strategies, environmental impact assessments, and plans to develop a more diversified and high quality product.

The tourism boom in Mauritius has been impressive. Tourist arrivals have doubled in six years: 148,900 in 1985 to 298,500 last year. Earnings have risen from MR845m to M3.9bn over the same period, making tourism the third biggest foreign exchange winner. Particularly good results have been achieved in boosting the average spending per tourist, which increased from MR5,676 in 1985 to M13,000 in 1991.

After a disappointing year in 1991, during which tourist arrivals increased only by 2.4 per cent over the previous year (mainly because of world recession and the Gulf War), Mr Noel Lee Cheong Lem, minister of tourism, says arrivals look likely to return to a growth rate of about 10 per cent this year.

This pattern of growth has had its costs. The number of hotels in the past six years has increased from 55 to 80, with an increase in the number of beds from 5,387 to 10,482. Bed occupancy rates fell to a record low of only 47 per cent last year, as the increase in tourists has not kept pace with the increase in beds.

Between 1985-1988, according to Mr Lem, a number of hotel development certificates were distributed as "political favours" – without either adequate planning about how the new hotels were going to be filled, or consideration of the environmental impact of this expansion. With low occupancy rates the new hotels are struggling to make profits, despite attempts to buy market share by cutting rates.

Tourism

	1986	1988	1990	1991	1992*
Arrivals (000s)	165.3	239.3	291.6	300.7	330
Gross earnings (MRs)	1.19bn	2.37bn	3.63bn	3.88bn	4.40bn
Bed occupancy (%)	61.4	74.1	68.4	60.0	62.0
Hotels	56	64	75	80	80
Employment	5,955	7,005	9,670	10,388	12,000

*Predictions. Source: Ministry of Tourism, Mauritius Government Tourist Office

Furthermore, the unregulated growth in the number of hotels has had a detrimental impact on the environment. Dumping of untreated sewage into the seas and lagoons, particularly severe in the Grand Baie area, has had a damaging impact on the marine ecosystem.

A moratorium on 20 new hotel projects expired last year, but Mr Lem says 16 of these projects have subsequently been shelved, and the government is trying to persuade the other four not to go ahead. "We are applying the brakes on the further expansion of the tourist sector and at the same time trying to widen the market 'to allow hotels to achieve the rate of occupancy which is viable and profitable."

> The industry is looking eagerly to government for clear development policy direction

All new hotel developments will now also be subject to an environmental impact assessment under the new Ministry of the Environment.

If hotel development is slowed, and the growth in arrivals continues to boom, Mauritius's capacity problem and the economic viability of hotels is likely to ease considerably within the next three to four years. The government has now abandoned an arbitrary limit of 400,000 arrivals by the year 2000, and Mr Lem says Mauritius is a long way from the threshold of tolerance of tourist arrivals, and that the ratio of tourist arrivals to population is still so low that at least 500,000 arrivals by the end of the century is acceptable and possible.

Two important challenges face the government in seeking to increase arrivals: developing new markets, and developing the infrastructure for the "second phase" of development.

Government is pinning its hopes on development of the Japanese and Indian markets, and consolidation of the French, British, German and South African markets. A once-a-week flight from Osaka to Mauritius is expected to start by 1994. But hoteliers and tour operators say the Government Tourist Office is weak and ineffective, and must develop a much more aggressive marketing campaign. They say the MR65m allocated to promotion in this year's budget is not enough.

The government will continue to ban charter flights, camping and caravan sites, to discourage "low budget" tourists and maintain Mauritius's image as an upmarket destination for "low volume high income". The question remains whether the sufficient growth in numbers can come from the high income market alone.

Moreover, many "low budget" tourists, especially from France, continue to find their way to Mauritius by taking charters to Reunion and then making the short (50 minutes) flight to Mauritius. Some hoteliers and tour operators believe it would be better to accept that low budget tourists are going to come, cater properly for them, and get the maximum revenue out of them.

They also say that Mauritius remains an extremely expensive destination, even for the high-income bracket tourist, and that only by considerably improving the quality of the product and service will the industry be able to continue to attract increased volume in the face of competition from Kenya, Seychelles, Indonesia, Maldives and Thailand.

Development of infrastructure and added facilities will be critical to further growth – as will maximising revenue by attracting tourists off the beaches to spend more money on other activities. The development of the National Handicraft Centre, and of inland facilities such as the "Domain du Chasseur," a deer hunting and nature park, is being welcomed by the private sector.

After a period of rapid growth the government is now facing crucial decisions on how to consolidate and expand its thriving tourist sector to ensure that continued growth will be sustainable.

November to May is the season for big game fishing off the island

Sir Anerood Jugnauth, the prime minister, is interviewed by **Michael Holman**

'No one owes us a living'

Question: Where will the impetus for growth in the 1990s come from?

Answer: The economy is now in a new phase of its industrialisation process, characterised mainly by diversification into capital and technology intensive manufacturing. Diversification will broaden our production base and reduce our dependence on sugar, textiles and tourism. Capital and technology, along with the production of up-market goods and services will raise our productivity.

More impetus for growth will come from the financial services sector. In fact, this sector is poised to become the fourth pillar of our economy. The offshore business centre and the freeport will help growth and lead us on the path to become a newly industrialised country.

Q: Are you disappointed at the pace of diversification in the export processing zone (EPZ)?

A: I would certainly prefer things to move faster. The world recession has slowed down investment, but I am confident that as the international economic situation improves, there will be growing demand for products such as electronics and jewellery, in which we are diversifying.

Q: How serious a constraint is the skills shortage?

A: In the short term it is not a serious problem, since we allow firms to contract expatriate workers. For the long term, we are investing massively in training.

Q: How will you cope with the changing international trade environment?

A: Insofar as sugar is concerned, the European Community sugar protocol for ACP members will hold for an indefinite period. However, as regards the Multifibre Agreement, Mauritius presently enjoys preferential access to EC markets, which may not be the case if the MFA is not upheld. But we are already preparing ourselves for tougher competition. No one owes us a living. Diversification, modernisation, quality improvement, productivity – focus on these areas will help us maintain our competitive edge.

Q: Is enough being done to protect the environment?

A: We are doing the maximum we can. Our approach is very much related to sensitising our population through school and public campaigns, and since the publication in 1988 of a national action plan, government is proceeding with 32 projects covering all aspects of the environment.

Q: Can Mauritius afford its "welfare state" facilities – free education, free health services, social security benefits, subsidised basic foods?

A: To tell you the truth, I am worried. I have warned that we cannot go subsidising food for everybody. I even say for certain types of medical care, people who can afford to pay should be made to pay. I and my colleagues are going to study these things very carefully, and a committee is being set up . . . it just cannot go on like this.

Q: Are you closer to a solution for Diego Garcia (the coral atoll forming part of the British Indian Ocean Territory, serving as a US military base, claimed by Mauritius)?

A: I sincerely hope so. I have received a letter dated July 1 from the British government which opens the way for further discussions. I am satisfied the grounds have been cleared for a mutually satisfactory solution.

Q: Does Mauritius provide any lessons for Africa?

A: Two factors in particular have contributed to our success, and which I believe are prerequisites for successful development anywhere: political stability in a democratic context, and heavy investment in human resources.

Environmental degradation must be reversed

Toughness needed

STUNG BY international donor criticism, Mauritius has started work on a comprehensive environmental policy aimed at preventing further serious degradation of its fragile resource base.

Reversing the serious damage done to the environment from the past eight years of rapid but unregulated growth in manufacturing and the tourism sector will be a big challenge, requiring some tough – and politically and economically courageous – decisions.

However, for some of the environmental damage already done – such as the destruction of part of the marine and coral life around Grand Baie, caused by from the discharge of untreated sewage into the sea by the mushrooming hotel industry – government awareness has come too late.

The critical challenge for government lies in balancing the often conflicting demands of enhancing "the second phase" of economic growth, while spending money and instituting controls and regulations on businesses to preserve the environment. A comprehensive 400 page report, prepared by the Mauritian government for the presentation at the Rio Earth Summit last June, recognises this.

"The rapid pace of industrialisation has admittedly given rise to a degradation of the environment which to a large extent stems from haphazard development and poor planning," the report says. But it also stresses the need for a pragmatic policy towards the industrial sector and the need to "frame intervention to protect the environment at least cost to industry."

Whether the government will be able to tread this tightrope, successfully trading off environmental concerns with demands for even faster growth, remains questionable – given the political strength of business interest groups. But there seems to be widespread recognition of the problems and the need for action.

The creation of a Ministry of the Environment in 1990 was a turning point in the Mauritian government's environmental awareness and in its efforts to construct a comprehensive policy structure. Among the pressing environmental problems identified by the new ministry are:

- The need to arrest coral depletion by coral sand mining companies, by introducing incentives for switching to basaltic sand. 600,000 tonnes of coral sand are used every year in the building industry. The ministry has stopped allocating new licences to coral sand dealers, and will carry out a review by next June, with a view to phasing out the trade completely.
- Tackling the heavy use of agrochemicals and fertiliser.
- A National Physical Development Plan to relocate economic activities and allocate scarce land resources in an environmentally friendly way.
- An important upgrading of solid waste management and the development of a sewerage master plan. Rubbish dumps are to be phased out; in future all waste will be transported to transfer sites, where it will be compacted into bales and then taken to land-fill sites. Five of these have already been identified and are being prepared.
- The promotion of environmental protection and low waste technologies through incentives, loans and subsidies to Mauritian manufacturers, particularly the worse environmental offenders such as the textile dyeing houses, sugar factories, stone crushing plants and boilers.
- Introduction of the "polluter pays principle" through charges, penalties and taxes.
- Creation of a special industrial estate for high pollution industries where skilled technicians can work to reduce environmental damage.
- Zoning of marine parks to protect marine life and coral reefs.

> All new projects must be subjected to an environmental impact assessment

Mr Bashir Khodabux, environment and quality of life minister, says that identification of these problems by the ministry's 400 page report has been a significant plank in the government's policy. Passage of the Environmental Protection Act (EPA) in July last year has also laid the legislative framework for the next phase of quantitative action.

Under the Act, all new projects must be subject to an environmental impact assessment, which will allow the ministry to impose environmental conditions into the project plan.

For existing businesses the government is developing a series of quantifiable "norms and standards" under the EPA to control the emission of effluents, smoke, noise, odour and water purity.

The standards are now at the solicitor general's office, and will then go through a process of public comment. "As soon as these standards are prescribed by law we shall start inspecting premises," said Mr Khodabux. "We are not going to be dictatorial. We want a consensual approach and we want to be pragmatic and practical but we do also want to start seriously on environmental action."

The minister believes the process will be completed by January 1993. "As from that date Mauritius will have a pragmatic but effective environmental policy." A number of other studies and projects are also under way – funded by donors who pledged $93m in 1989 for an environmental programme.

The list of ongoing projects includes funding technical specialists and scientists; establishing four environmental laboratories; providing infrastructure for the special industrial park; an emergency sewage project for Baie de Tombeau; preparation and implementation of a National Sewage Master Plan; establishment of a hazardous substance control board and plans to improve pesticide use and regulation.

Observers say that the Mauritian government has moved swiftly, albeit after a long period of damaging inaction, to prepare a sweeping environmental policy.

The critical question which remains, however, is whether the government has the political will to implement its policies effectively – especially in the face of business opposition and claims that environmental protection is costly, and acts as a brake on development.

Julian Ozanne

Just pick up that cellphone

FEW business destinations can be as beguiling as Mauritius. Accessible government officials, a flourishing private sector, up-to-date statistics, good restaurants and delightful beachside hotels make even hardened workaholics relax.

Life has been made even easier by the arrival on the island of the cellular telephone. Local and worldwide connections are so good that your caller will not know whether you are under a palm tree, putting the 25 minute journey from your Grand Baie hotel to Port Louis to good use, or telephoning from the capital itself. Local and international calls are at the standard phone call rate, so the saving on hotel surcharges can cover the MR400 daily rental.

There are no first class hotels in Port Louis, but with some of the world's finest beaches a 30 minute taxi ride away, who would choose to stay in the capital? Most offices are within walking distance, so it's hardly necessary to hire a car. The taxi journey from Grand Baie area costs about MR200 (or you could help pay for the cellular telephone by using the efficient bus service – MR10 for the same journey).

An alternative to hotel accommodation is a short term let of a serviced beachside bungalow; this can be arranged by Leisure Promotion (Tel/fax 2638812).

A pleasant city rendezvous is La Bonne Marmite (2122403/4406 – wonderful palm heart salad); but one of the best restaurants on the island is Le Piscatore (2616337), near the Trou aux Biche Hotel: excellent sea-food, and special dishes for vegetarians.

Galerie Helene de Senneville (2637426, Grand Baie) offers fine paintings and prints of Mauritius by local artists including Daniele Hitie, and look out for work by Michael Adams, who lives on the Seychelles but visits Mauritius frequently.

For a weekend break, explore the island of Rodrigues – "Mauritius before the tourists arrived". Air Mauritius has a daily service to the island, and every room at the recently opened Cotton Bay Hotel (095-831 3000/1/2) opens up on to an unspoilt beach.

But find time for a sundowner on the wood-slatted verandah of the Pointe Venus hotel, an elegant but fading reminder of the colonial era which overlooks the capital, Port Mathurin. Credit cards are widely accepted in Mauritius; business cards are regularly exchanged.

No visas are required for Commonwealth passport holders, or from the EC, Scandinavia, Japan, US, South Africa, Oman, Quatar, Saudi Arabia, UAE. Yellow fever and cholera vaccination certificates may be needed if you arrive from infected areas. There is no malaria on Mauritius.

Some local telephone numbers:

Government Departments:
Prime Minister: 2011001
Agriculture: 2011403
Economic planning: 2011576
External affairs: 2011416
Finance: 2011145
Industry: 2011221
Trade: 2011067

Embassies:
British High Commission: 6865795
France: 2083755
India: 2086857
South Africa trade mission: 2126926
US: 2082347
EC: 6865062

Banks:
Bank of Mauritius: 2126127
Development Bank of Mauritius: 280241
State Bank: 2088909
Barclays Bank: 2121816
Bank of Baroda: 2123900
BNPI-Banque *Nationale de* Paris: 2084147
Hong Kong Bank: 2081801
Mauritius Commercial Bank: 2082801

Hotels:
North of Port Louis:
Trou aux Biches: 2616562
Royal Palm: 2638353
Merville: 2638621
South of Port Louis:
La Pirogue: 4538441
Sofitel Imperial: 6836581
East Coast:
Le Saint Geran: 4132825

Mobile phone:
Emtel: 4545400

Courier services:
DHL: 2087711/7714; fax 2083908
TNT: 2080748; fax 2080401

Car hire:
Avis: 2081624
Budget: 2420341
Europcar: 2089258
Hertz: 6751453

The airport at Plaisance is 50km from Port Louis. Travel by taxi to Grande Baie costs about MR600; allow about 70 minutes for the journey.

Airlines:
Air Mauritius: 208687
Air France: 2081281
Air India: 20837400
British Airways: 2081039
Singapore Airlines: 2087697
South African Airways: 2081281

Useful contacts:
Chamber of Commerce: 2083301
Chamber of Agriculture: 2089852
Export Development Authority: 2087750
Mauritius EPZ Association: 2085216
Mauritius Freeport Authority: 2129627
Mauritius Sugar Authority: 2087262

Michael Holman